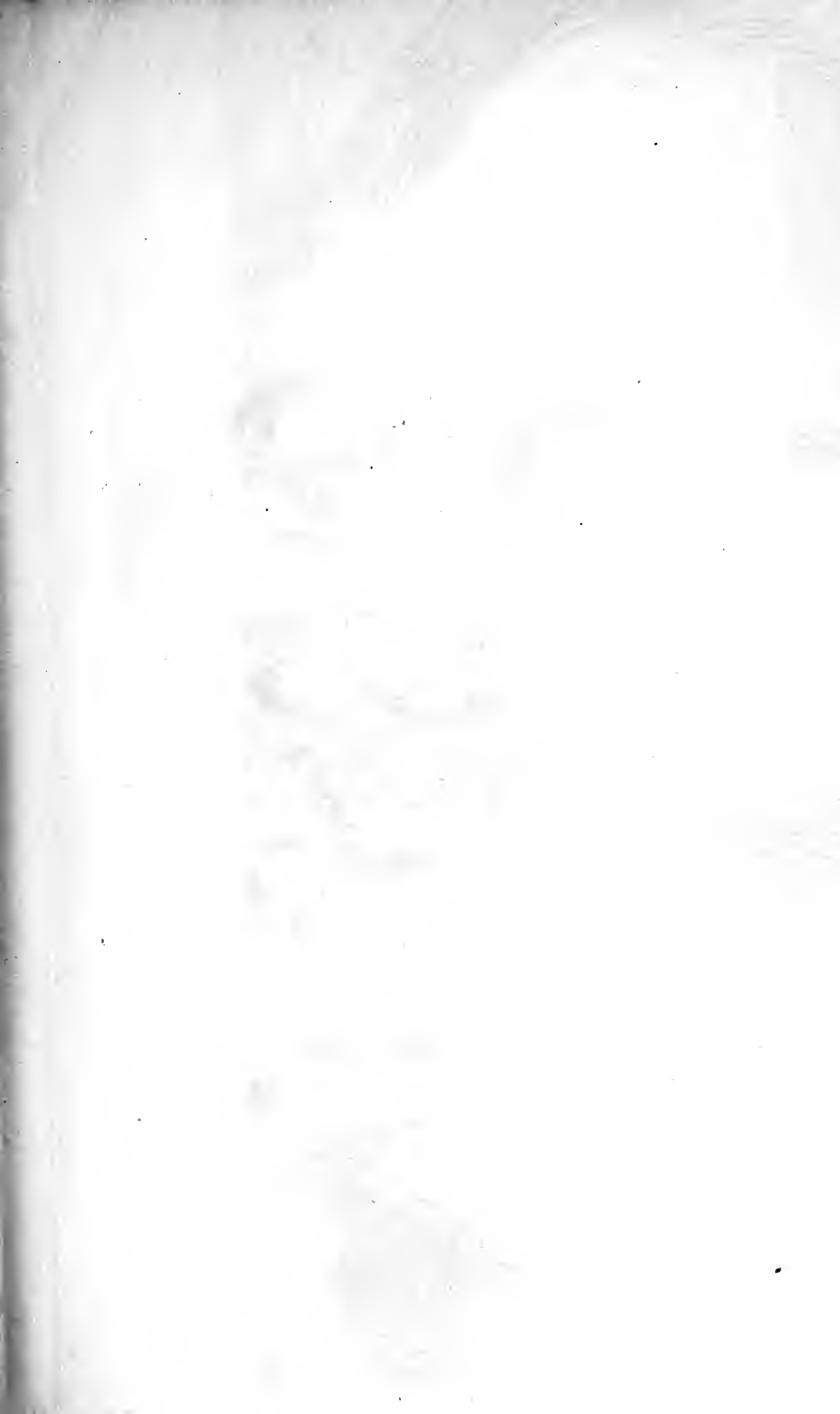


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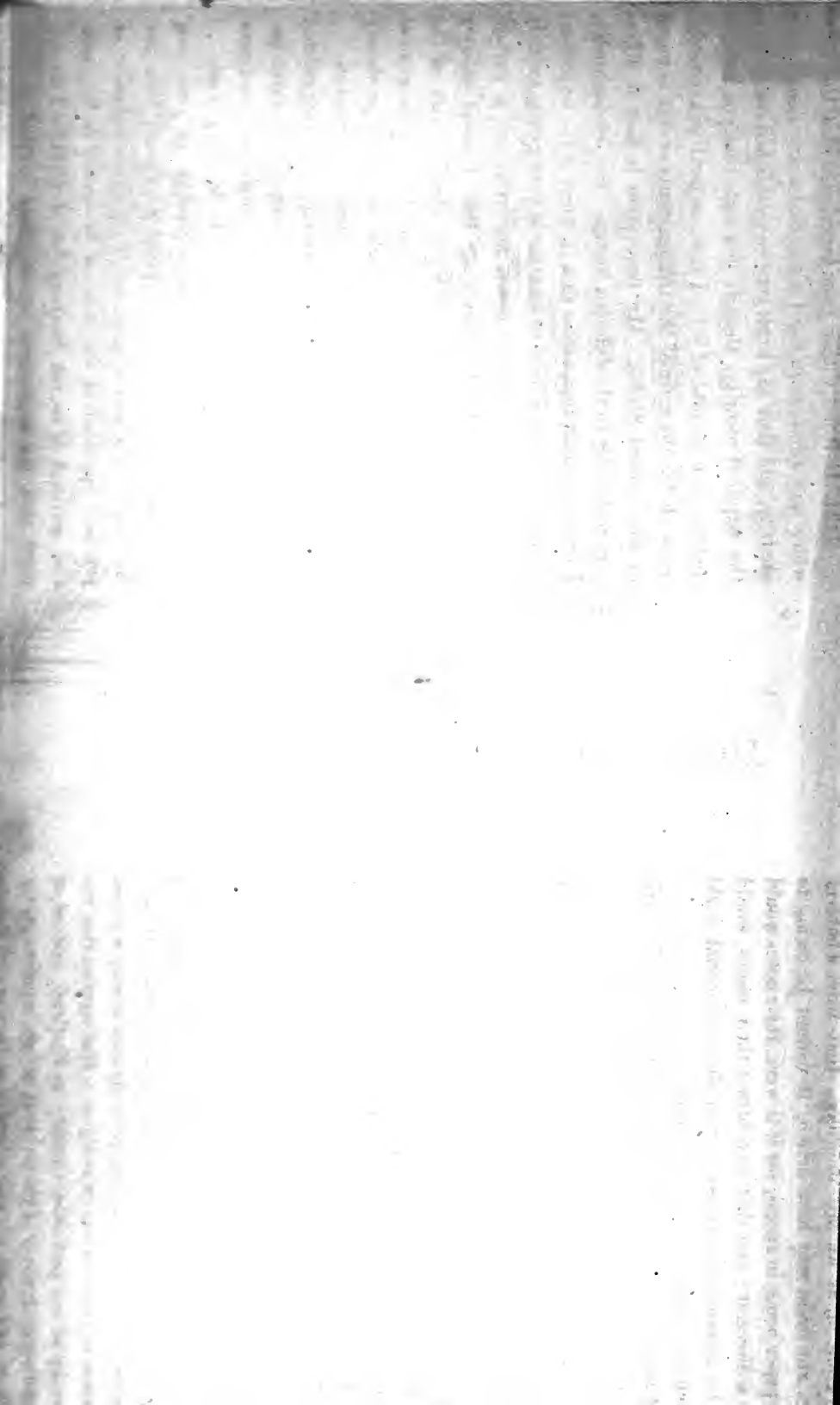




EVIDENCE

OF

LORD OVERSTONE IN 1857.



THE EVIDENCE,

GIVEN BY

LORD OVERSTONE,

BEFORE THE SELECT COMMITTEE OF THE HOUSE OF
COMMONS OF 1857,

ON

BANK ACTS,

WITH ADDITIONS.

89701
718108.

LONDON:
LONGMAN, BROWN, & CO.
MDCCCLVIII.

P R E F A C E.

SOME explanation is necessary of what may otherwise have the appearance of presumption in publishing in this separate form, the evidence given by me before the Committee to which the subject of the Bank Charter Act was referred in the last Session, and which has already appeared, in common with the evidence given by several other witnesses, in the Parliamentary Report.

In the year 1833, I was summoned for the first time, before a Parliamentary Committee, in reference to the Banking and Monetary arrangements of the country.

Bearing in mind the instructive events of 1825, and the extravagant proceedings of the Country Banks so intimately connected with the excitement, and ultimate convulsion of that period, I then expressed my opinion.

1. That inconvenience and difficulty must arise from any multiplication of the issuers of paper money (Question 3448).

2. That, upon general principles, one bank only of issue throughout the country would be the best system (Question 3455).

3. The essential importance of a full and regular publication of the accounts of the Bank, including the bullion (Questions 3382-3-4).

4. The expediency of repealing the Usury Laws.

In 1840, I was again called before a Committee of the House of Commons on Banks of Issue.

The perilous position into which the monetary system had been brought in the preceding years, 1837 and 1839, was then fresh in the recollection of the public, and the necessity of some further protective measures, by which the recurrence of similar danger should be effectually obviated, was very generally recognized. A careful consideration of the subject at that time led me to the conclusion that adequate security for maintaining the power to pay the notes of the Bank in specie, under all contingencies, must be sought in some further provisions supplementary to those contained in the Act of 1819. The discretionary power over the amount of their issues vested in the Bank Directors by that Act, and upon which the public reliance had hitherto rested, was proved by the course of events to be an insufficient security. It appeared to me essential that the privilege of issuing Bank notes, that is of creating money, should be separated, distinctly and entirely, from the business of banking, that is dealing in money.

I therefore advocated before that Committee, the separation of the departments of the Bank of England, and the establishment of such further regulations as should secure perfect coincidence at all times between the fluctuations in the amount of Bank notes, or paper money, and the fluctuations in the amount of the metallic money, as indicated by the state of the bullion.

Those opinions were very distasteful to some parties; and I was subjected to a protracted and hostile cross-examination, which necessarily drew from me a full statement of the principles by which my judgment had been guided.

A few years subsequent to this, the Act of 1844 was passed, subjecting the monetary system to regulations which seemed to me to rest upon sound principles, and which I felt great confidence would, under any trial to which they might be subjected, prove sufficient for the protection of the bullion reserve, as the means of maintaining the convertibility of the Bank note.

In 1848, Parliament was again called upon to deliberate on this subject. The very peculiar events of 1847 had led to a temporary suspension of one of the main provisions of the Act of 1844.

Being called before Committees of each House of Parliament I endeavoured to show that the events of the preceding year, when properly understood, afforded no evidence of failure in the Act of 1844 to accomplish its real purpose. On the contrary, I maintained that the effectual protection of the bullion reserve, through all the pressure and convulsion of that remarkable year, was attributable exclusively to the provisions of the Act; whilst the difficulties of that period were the result of extensive mercantile insolvency, further complicated by an unnecessary public panic, generated by ignorant and unfounded apprehensions respecting the operation of the Act.

Ten more years having elapsed, it has now become competent for Parliament to revise the Act of 1844—to repeal or to modify any or all of its provisions.

Before the Committee to which this question has been referred, objections of a novel and rather extraordinary character have been urged against the fundamental principles of the Bill. It has been my endeavour, in the evidence which I have given, to show the fallacious and

untenable character of these objections, and at the same time, to draw attention to the confirmation of all the main principles of the Act, which may be derived from the practical experience of its operation, during the thirteen years of its existence.

All the important parts of the evidence given by me before previous Committees, have already been printed in a separate form; to that I now venture to add the evidence given before the Committee of last session; being desirous that the grounds upon which I originally advocated the principles on which the Act is founded, and the reasons by which I have steadily endeavoured to defend it against the ever-varying objections of its assailants may appear in an uninterrupted and complete form.

To the evidence as delivered before the Committee, I have made some subsequent additions, with the view either of stating more fully the reasons upon which an opinion is founded, or of supporting that opinion by reference to those which are universally recognized as the highest authorities. These additions are placed between brackets, and it will be seen that they in no respect alter the purport of the evidence, as given in the first instance. I now take final leave of this protracted discussion, with a painful consciousness of my incapacity to do justice to the importance of the subject. The principles which are at issue were first brought to light, and established as scientific axioms by really great minds: my more humble endeavour has been to assist in defending those principles against the transient objections of the day, and in maintaining a great public measure, which is a direct and legitimate consequence of those principles. To one test of truth, and

and that not an unimportant test, I confidently submit the evidence which I have given on consecutive occasions, through a period of more than twenty years. The opinions which I have given, and the reasons by which I have supported them have been consistent throughout. It would have involved no discredit if the instruction to be derived from the varied course of monetary events, and the accumulating experience of this long period, had necessitated the abandonment or modification of some of the views urged in the earlier stages of the discussion. I am not aware, however, of any principle once maintained in my evidence or in my publications which has not been confirmed by the ordeal to which it has been subjected, nor of any anticipation which has not been realised by the subsequent course of events.

Previously to 1844, the store of bullion had been reduced on several occasions to a very low amount, and great public alarm as to the power of maintaining specie payments had ensued. The mere convertibility of the note had proved wholly insufficient as a protection against this danger, and reliance upon the discretion of the Bank direction had been found in the hour of trial to be delusive. This fact admits of no denial. The Act of 1844 was resorted to. The supporters of that Act in recommending it to public confidence ventured to make two predictions. That under the provisions of the Act, the extreme and dangerous exhaustion of the bullion would become impossible; and further, that this result would be accomplished without in any respect interrupting or checking the development of national prosperity. It is undeniable that both these prophecies have been fulfilled. During two periods of monetary pressure which has severely tried

every trading country in the world, the store of bullion in this country has been effectually maintained—whilst the trade of the country, during the time in which the Act has been in force, has increased possibly with too much rapidity.

CARLTON GARDENS,

December, 1857.

EVIDENCE, &c.

Tuesday, 7th July, 1857.

MEMBERS OF COMMITTEE PRESENT.

Mr. Cayley.	Mr. John Lewis
Mr. Ennis.	Ricardo.
Mr. Fergus.	Mr. Spooner.
Earl of Gifford.	The Chancellor of the
Mr. Gladstone.	Exchequer.
Sir James Graham.	Mr. Tite.
Mr. Hankey.	Mr. Weguelin.
Mr. Hildyard.	Mr. Wilson.
Mr. Hope Johnstone.	Sir Charles Wood.

The Right Hon. THE CHANCELLOR OF THE EXCHEQUER
in the Chair.

The Right Honourable LORD OVERSTONE, attending by
permission of the House of Lords, Examined.

3640. *Chairman.*] I THINK that your Lordship gave
evidence before the Select Committee of the House of
Commons in 1840 on Banks of Issue?—I did.

3641. In that evidence did you express opinions with
respect to the question of currency, similar to those upon
which the Act of 1844 was founded?—I did. [In the

evidence which I gave at that time I endeavoured to establish the importance of the following principles :

First. That nothing will secure the permanent convertibility of paper money but a constant regulation of the amount of that paper money in conformity with the variations in the amount of the bullion (Questions 2867, 2870, Evidence before Committee of House of Commons, 1840).

Second. That if the amount of paper money be duly contracted as the metallic money goes out of the country, the convertibility of the paper money will be effectually maintained, through the continually increasing value of the quantity of money which still remains in the country (Question 2676).

Third. The importance of separating the function of issuing (or creating) money, from the function of banking, which consists in the use of, or dealing in, money (Questions 2732, 2737).

Fourth. That one of the inconvenient consequences arising from the union of issue with banking is found in the fact that there can under that system be no distinct knowledge of the reserve in the till of the Bank of England, and of the fluctuations of amount which that reserve may undergo (Questions 3482-3).

That the money of the country consists of the aggregate of the notes out of the walls of the Bank of England, and of the notes really existing in the till of the Bank of England (Question 3481).

Fifth. That the Bank of England has no real power to regulate the rate of interest. That temporary fluctuations in the rate of interest may arise from an increase or contraction of the amount of money in the

country; but that the rate of interest essentially depends upon the proportion between the supply and demand for capital (Questions 2794, 2797)].

3642. Under those circumstances, perhaps, I need scarcely ask you whether you approve of the policy of the Act of 1844?—I have always approved of the policy of the Act of 1844, and that approval has year by year gained strength by the strong verification of the soundness of its principles, which has been derived from the consecutive course of public monetary events.

3643. You also gave evidence before the Committee of Commercial Distress of this House in 1848?—Yes.

3644. You probably retain the opinions now which you expressed before that Committee with respect to that particular crisis?—I have never seen any reason to alter any of the opinions which I have ever expressed upon the subject of the monetary affairs of the country, from the commencement in the year 1837 down to the present time; every opinion which I have expressed consecutively, appears to me to have been fully verified by the course of public events.

3645. Confining ourselves at present to the period since 1847 and 1848, do you think that subsequent experience has confirmed your views with respect to the sound policy and beneficial operation of the Act of 1844?—Undoubtedly; the whole course of events since 1847 has year by year strongly confirmed in my judgment the opinions which I have always expressed respecting the principles upon which the Act of 1844 is founded, and I have the strongest grounds for saying that those opinions have year by year been growing greatly throughout the whole mass of the public, and that the course of events during the last two or three years has created a very strong

feeling in favour of the Act of 1844, where there was previously considerable misgiving respecting it. I think that a strong practical proof of that fact is to be found in the opinions which are now before the Committee on the part of the whole body of the Bank Directors, persons who are entrusted with the administration of that Act; who have had to administer it during a period of peculiar trial, singularly calculated to draw out the merits or the defects of the Act whichever they might be; and the Committee have now before them, what may fairly be called the unanimous declaration of the whole body of the Bank Directors, that they think that that Act has worked beneficially, that it is sound in principle, and that it ought to be renewed; an opinion in which I entirely concur.

3646. Is it a correct description of the principles of the Act of 1844 to say that, with respect to the Bank of England, the main principles are the limit as to the 14,000,000*l.* of issues against securities, with the ulterior issues against bullion, and the separation of the departments; and with regard to country banks of England, the limitation of their issues according to the average of their circulation up to a certain time, and the prohibition of the establishment of new country banks. Do you conceive those to be the three main principles of the Act? —I understand the great principle of the Act of 1844 to be this—to make the amount of paper money in the country conform in its variations to what would be the variations in the amount of a metallic currency, and that all the other provisions of the Act are ancillary to the carrying out of that great principle. The main ancillary provision I understand to be the separation of the departments. The first object of that separation I understand

to have been to effect, with regard to paper money and banking business, that complete separation, both in accounts and in fact, which necessarily exists in reason and in principle. The second object of that separation I understand to have been, to protect the public from those misconceptions and errors which are necessarily generated by a suppression of the banking reserve, and of all knowledge of the fluctuations in the amount of that reserve. The third object of the separation of the departments I understand to have been to compel both the Bank of England and the public to form a more definite and correct estimate of the true limits of the legitimate resources of the Bank of England; and upon these three great principles to found a rational and honest administration and management of paper money, rendering the separation of the departments ancillary to the great principle of the limitation of the amount of paper money in conformity to the fluctuations of the bullion. Those I consider to have been the objects of the separation of the departments; and those objects I conceive to have been completely effected by the separation of the departments.

3647. Do you consider the separation of the Issue and Banking Departments of the Bank of England to be founded upon the principle that the business of issue and the business of banking are in their nature distinct?—Undoubtedly: it is impossible to entertain any other view of the matter.

3648. What in your Lordship's view are the main causes of the fundamental distinction between the business of issue and the business of banking?—That question necessarily raises the great question, what is the principle upon which the management of the paper money of the country ought to be regulated. When I first heard

that it was intended to call me before this Committee, I, for my own satisfaction, endeavoured to commit to writing a few of the heads of the subject as they presented themselves to my mind, and in the form in which I thought they must necessarily come under the consideration of this Committee. With the permission of the Committee, I will read those heads to them, because I think they are calculated to open the whole subject, and in the form in which, I think, it ought to have come under the consideration of this Committee. I have stated them shortly: "First, the supply of the current coin, that is, the money of the realm, ought to be entirely separated from banking business, which is simply trading in money, borrowing at a low rate and lending at a higher rate. Second. Bank notes should be treated as tokens or representatives of the current coins, that is, of the metallic money of the country. A 5*l.* bank note is, in fact, a token or certificate representing five sovereigns; and no banker or private individual ought to be allowed to issue such tokens or certificates any more than they are permitted to issue the coins of the realm. The notes or certificates ought to be issued as the money, whether copper, silver, or gold, is coined, under strict provisions of law, and by an authority, such as the Mint, established by law, and subject to strict regulations laid down in that law." Upon this point I beg to quote a passage from the celebrated sub-treasury speech of Mr. Daniel Webster, the American senator, and an authority in the United States, the very highest that can be referred to upon questions of this nature. It is this: "The circulation of paper tends to displace coin; it may banish it altogether. At this very moment it has banished it." I would ask the Committee to mark well that fact. There is a distinct statement of the entire banishment of

coin from the United States by paper money, payable to the bearer on demand, and issued in obedience to what were deemed to be the wants of the public. "If others may drive out the coin, and fill the country with paper which does not represent coin, of what use is that exclusive power over coins and coinage which is given to Congress by the constitution? Wherever paper is to circulate, as subsidiary to coin, or as performing in a greater or less degree the function of coin, its regulation naturally belongs to the hands which hold the power over the coinage. This is an admitted maxim by all writers; it has been admitted and acted upon on all necessary occasions by our own Government, throughout its whole history." I go on: "Third. The coins are maintained at their proper amount and value by virtue of the intrinsic value of the metal of which they consist. The paper notes or certificates ought to be preserved at their proper value by making them, under all circumstances, conform in amount to the coins or metallic circulation which they represent. Fourth. The sole privilege of coining money, whether copper, silver, gold, or paper, ought to be vested in one institution, established for that exclusive purpose, and subject to strict regulations of law. No share of such privilege ought to be conceded in any form to banks or to private individuals. Fifth. All profit arising from the issue of paper certificates, that is bank notes, in place of coin of intrinsic value, ought to be appropriated to the public exchequer, and ought not to be diverted to the benefit of banks or any other concerns. Sixth. Perfect freedom of competition should be established in the business of banking, correctly understood, and effectually distinguished from the function of coining or from that of issuing paper tokens or representatives of coins, that is

bank notes, which, in fact, is coining under a form peculiarly susceptible of abuse, because the undue issue of paper notes is not restricted by that intrinsic value which effectually regulates the issue of metallic money. In support of this principle it is satisfactory to be enabled to appeal to the authority of Mr. Tooke, an authority held in peculiar estimation by many who dissent from my views." These are his words: "The privilege of issuing paper money is a delegation of that which is universally considered as a privilege residing in the State." Again, he says, "It strikes me to be a most extraordinary circumstance connected with the country issue of paper money, that whereas Government invests with a number of sanctions the privilege of issuing coin upon the intrinsic metal, by which nothing is to be gained, it should allow individuals the privilege of coining it upon a material which in itself is worth nothing, and consequently upon which there is a very great gain, by the substitution of it for the other, which is of intrinsic value." [To this may be added the authority of Mr. Ricardo, very distinctly stated in his Reply to Mr. Bosanquet, p. 92, "A bank note is of no more intrinsic value than the piece of paper on which it is made. It may be considered as a piece of money on which the seignorage is enormous, amounting to all its value; yet if the public is sufficiently protected against the too great increase of such notes, either by the indiscretion of the issuers, or by the practices of false coiners or forgers, they must in the ordinary operations of trade retain their value."] "Having arrived at a distinct and correct understanding of the true character and function of paper money, *i. e.*, of bank notes, that they are certificates or representatives of bullion, to be kept at their proper amount by positive regulation of the quantity

issued, as the coin would be necessarily preserved at its proper amount by the regulation which arises from its intrinsic value, the next important point for consideration is the extent to which this principle is recognised and carried out in the provisions of the Act of 1844. By that Act a positive limit is fixed to all the country issues. The fluctuations therefore in the amount of paper money are necessarily thrown upon the notes of the Bank of England exclusively, and the amount of the issues of Bank of England notes is made to vary with the bullion. By this means effectual security is obtained that the amount of paper money in the country shall at all times conform to what would be the amount of a metallic circulation. Of this there can be no doubt. The paper money of the country, under the Act of 1844, conforms strictly in amount, and consequent value, to a metallic circulation; those fluctuations of amount, and those only, which would occur under a purely metallic circulation, can and will occur under our present mixed circulation of gold and paper, as regulated by the Act of 1844. This being the case, it only remains to consider what has been the practical result of the adoption of these principles. The effectual protection of the bullion reserve was the primary object and purpose of the Act; this has been fully accomplished. The bullion has been subjected to two severe drains, in 1847, and again in 1856-57; but in neither case has it been reduced to an unduly low amount—at no time, I believe, has it fallen below 8,000,000*l*. Has this result been accomplished by an improper injury or sacrifice of our trading and commercial interests? For an answer to this question we may turn to the reports of the Board of Trade, showing, during the 13 years in which the Act has been in operation, an increase of imports and

exports from 45,000,000*l.* to 120,000,000*l.* We may also appeal to the universal recognition that the last year, although dedicated to the adjustment of heavy war expenditure, and exposed throughout to severe pressure by adverse exchanges, has been nevertheless a period of prosperity almost without example. But some useful and very pointed instruction may be derived from a short retrospect of the progress of our monetary legislation. In 1819 cash payments were resumed, that is, the bank note was declared to be at all times convertible. But the means of securing that convertibility were left to the free discretion of those who were entrusted with the management of the Bank of England. No positive regulations were laid down for their guidance, or for the security of the monetary system. Under this state of the law three successive crises occurred, each of them characterised by the reduction of the bullion to a very low amount, by imminent danger to the convertibility of the notes, by universal alarm on this point, and by a generally disgraceful state of the monetary system. The public became dissatisfied, and very reasonably so; some more definite and scientific system for the regulation of the paper money of the country was demanded. That practical and sagacious statesman Sir Robert Peel applied his mind to the subject. He at once grasped the true character of the paper bank note. He saw that if it was to be convertible at all times into gold, it must be treated as the direct representative, or I may say as the shadow, of the gold coin; and from this it followed as a necessary consequence, that it must at all times be preserved at what would be the amount of a gold circulation. To secure this purpose, it became obviously necessary to separate the accounts, that is, to establish an effectual

distinction between the regulation of the amount of paper money, and the conduct of banking business; to render them as separate in form of account, and in fact, as they are really separate in principle; to subject the paper money to positive regulation by law as regards the fluctuations of its amount, whilst the conduct of banking business is left subjected to the principle of free competition, and personal discretion and responsibility. Upon this principle, and with this view, the Act of 1844 was passed. The great feature of this Act is the separation of the accounts which regard issue of paper money from those which regard banking business, for the purpose of subjecting the fluctuations of the amount of paper issues to positive regulation by law. The result has been already described—perfect success in protecting the bullion from improper diminution of amount, perfect protection from the evils and disgrace which marked former periods of trial, 1783, 1793, 1825, 1837, 1839; and at the same time progressive development of national prosperity to an extent wholly unexampled. But from 1819 to 1844 there existed a class of persons who on all occasions, and in every possible form, bitterly denounced the principle of the resumption of cash payments, and used every means to effect the repeal of the Act of 1819. That position having become utterly untenable through the progress of public intelligence, the battle is now urged against the Act of 1844, the measure which had become necessary to give reality and practical validity to the Act of 1819. The provisions of that Act we are told are absurd and useless. Bank notes, forsooth, cannot be issued in excess by a bank; restriction of the amount of paper notes issued by a banking concern is impossible through the mere will of the issuer; separation of the accounts is

deceptive, and all that relates to issues must again be mixed up in one account with all that concerns banking; we must return to a state of monetary chaos. Each of these fallacies, extravagant as they are, must, I suppose, be subjected to a separate and full examination. It may be sufficient now to observe, that these provisions, the separation of the accounts and the positive restriction of the amount of paper issues, constitute the only real and effectual distinction between the monetary difficulties and dangers which attended every period of drain previous to 1844, and the striking contrast which the subsequent period presents. The proposal to repeal these provisions is in fact a proposal to return to our former state; to substitute the exhausted bullion, the danger to convertibility, and the public alarm on the subject, which we too often experienced previously to 1844, for the exemption from these evils, and the undoubted security of the bullion reserve which we have enjoyed under our present monetary legislation." That expresses my view of the question for the consideration of which I apprehend this Committee is summoned.

3649. It is an undoubted fact that the bullion reserves of the Bank since 1844 have been greater than they were in an equal period before 1844, whether we look to the average, or whether we look to the minimum. Different opinions have been expressed to this Committee as to the cause of that increase. Some persons have expressed an opinion that it has been owing to the operation of the Act of 1844, and others that it has been due to natural causes, and particularly to the increased production of gold. What is your Lordship's opinion on that subject? —You will allow me to remark at the very outset of that question, that I do not consider the bullion as lying

in the Bank of England. The bullion now lies in the Issue Department, which is nothing more than a department of the State, worked mechanically and clerically by the clerks of the Bank of England; but it is essentially a department of the State. The bullion in the Bank of England I apprehend to be altogether a deceptive form of expression, against the use of which I must, at once, as preliminary to the whole of this examination, enter my protest. With regard to the facts of the direct effect upon the amount of bullion in the Issue Department produced subsequently to 1844, and previously to 1844, the object of the regulations of 1844 was not to secure the maintenance generally of a much larger amount of bullion than there was before; but to protect the bullion from the possibility, under any circumstances whatever, [arising out of a foreign drain,] of falling below a safe amount. That effect has been completely produced. I understand (and I confess I cannot suppress the expression of my astonishment at hearing it) that it has been stated that that effect is attributable entirely to the gold findings, and not to the provisions of the Act of 1844. I apprehend that to be one of those random assertions, of which many are frequently thrown out upon the subject of currency questions, unsupported by any general reasoning, and unsupported by any appeal to facts. The phenomenon before us is this, that under two separate periods of trial, the bullion in each case has been reduced to the lowest amount which the Act will permit, [in so far as regards the action of the foreign exchanges,] and that amount on both occasions proves to be somewhere about 8,000,000*l*. Now, if that had been the result of the gold-findings, I apprehend that those amounts would have been very different. The

gold-findings in 1847 had not been developed to anything like the extent to which they have been in 1857; and if the gold-findings are the true cause of our bullion never sinking below 8,000,000*l.* in 1847, by parity of reasoning they ought to have prevented its sinking below double that amount in 1857, the gold-findings having been doubled in their extent in the meantime. But in the next place, these gold-findings have not protected this country from two very severe drains of bullion. Upon what ground of reason can it be asserted that whilst they fail entirely to protect the country from a severe drain of bullion, yet they are the efficient cause of a considerable store of bullion being preserved in the country?—Again, if you assign a cause, you must expect phenomena as widespread as the action of the cause. These gold-findings are operating over the whole world. Have they produced a great augmentation in the bullion reserve of all the countries in the world? I apprehend the phenomenon to be directly the contrary of that fact, that there has been a very severe pressure upon the store of bullion in all the other great exchange countries of Europe; and I cannot conceive a fact more overwhelmingly conclusive, if it be a fact, than that which has been stated, as I understand, before this Committee by one of the favourite witnesses of this supposed doctrine. He has stated, I must say, I think with great boldness of assertion, but he has stated before this Committee that the Bank of France was compelled by artificial means, and by purchases at an excessive price, to force 70,000,000*l.*, 80,000,000*l.*, and he expresses his confident opinion, as much as 100,000,000*l.* of gold into the stores of Paris; not put there by gold-findings, but put there, according to his statement, by very extraordinary and unusual processes on the part of the Bank of

France; and he concludes by saying that at last the store in the Bank of France was less than it was at the beginning; and this he illustrates by the old simile, that it was putting water into a bucket with a hole in it. Where were the gold-findings then? If the gold-findings are the true cause of the safety of our bullion reserve in this country, how came they not to have protected the bullion reserve in other countries? I apprehend the statement to be altogether a random assertion, with neither facts nor reasoning to support it; and that the plain, clear, and distinct principle of the question is this, that by having limited the paper money, so that it has fluctuated with the bullion, as the bullion has gone out the money of the country has been diminished, until it reached a certain point below which the national wants and necessities of the country would not permit it to be further diminished. By that means the money of this country was increased in value, so that it no longer became advantageous to send commodities to this country; but money was the best remittance to send to this country, and by that means the store of bullion was immediately replenished. It is the plain result, from the operation of the principle with regard to the interchange of the precious metals throughout the world, which has been recognized and acknowledged by every authority which has ever written upon the subject. [Money is exported from this country in preference to commodities only because money is in excess, and is therefore cheaper here than in other countries. But this excess of amount is soon corrected, and the money of this country restored to an equality of value with the money of other countries, by the export of gold, provided the place of the gold thus exported be not supplied by new issues of paper money.

It is to a firm adherence to this principle, and not to any accident connected with gold-findings, we are indebted for the steady maintenance of our bullion reserve at a minimum amount of 8,000,000 under the most trying circumstances. The subject has been fully explained, and the principle clearly established by Mr. Ricardo: "It is only after a comparison of the value in their markets and in our own of gold and other commodities, and because gold is cheaper in the London market than in theirs, that foreigners prefer gold in exchange for their commodities. If we diminish the quantity of currency, we give an additional value to it; this will induce them to alter their election, and prefer the commodities. If I owed a debt in Hamburgh of 100*l*. I should endeavour to find out the cheapest mode of paying it. If I send money, the expense attending its transportation being, I will suppose, 5*l*., to discharge my debt will cost me 105*l*.. If I purchase cloth here, which, with the expenses attending its exportation, will cost me 106*l*., and which will in Hamburgh sell for 100*l*., it is evidently more to my advantage to send the money. If the purchase and expenses of sending hardware to pay my debt will take 107*l*., I should prefer sending cloth to hardware, but I would send neither in preference to money, because money would be the cheapest exportable commodity in the London market. But if the Bank "fearful for the safety of their establishment," and knowing that the requisite number of guineas would be withdrawn from their coffers at the mint price, should think it necessary to diminish the amount of their notes in circulation, the proportion between the value of money, of the cloth, and of the hardware, would no longer be as 105, 106, 107; but the money would become the most valuable of the three, and therefore would be less ad-

vantageously employed in discharging the foreign debts. —Pamphlet “High Price of Bullion, proof of Depreciation of Bank Notes,” p. 15.]

3650. In your evidence in 1848, in answer to Question 5142, you make this remark in contrasting the state of things before the Act of 1844 and the subsequent state of things; you say, “Under the former system the Bank was under no necessity of taking any precautionary measures until the bullion was reduced to a very low amount. Under the Act of 1844 the Bank is obliged to take precautionary measures when the banking reserve is reduced to a low amount. Now the banking reserve is reduced to a low amount at a much earlier period than the bullion is reduced to a low amount; and therefore the Act of 1844 places the Bank under the necessity of acting protectively at a much earlier period than it was compelled to act under the previous system. In so far the Act of 1844 has compelled an earlier action, and in addition to its compelling an earlier action, as that earlier action must necessarily take place with a higher amount of gold, it protects you from all those further inconveniences which attended the feeling of apprehension with regard to a deficiency in the actual store of gold. That seems to me to be the difference between the Act of 1844 and of the previous system.” Does that statement appear to you to describe correctly the manner in which the Act has operated since the time when you gave your evidence?—Perfectly. If I had to state the case over again I should beg to be allowed to read those words: I see nothing whatever to be altered in any shape or form. As it appears to me, it is only reiterating the same statement in other words to say that previously to the Act of 1844, as bullion went out, the place of that bullion was taken by

paper notes issued. The consequence of that was, that the circulation, in other words the money, of this country was kept at an undiminished amount, when the action of the exchanges required the decrease of it. Under those circumstances gold would continue to go out, and would have continued to go out, until it was finally exhausted, had it not been that when it became known that the gold was reduced to a very low amount, then the public became alarmed, and the Bank became alarmed, and through that alarm they resorted to precautionary and corrective measures. Under the Act of 1844, which has developed that most essential feature in the monetary system of the country, the banking reserve, we now all know that as the bullion goes out, either the notes, which are not in the Bank till, or the notes which are in the Bank till, must undergo a corresponding decrease; and that being the case, the corrective influence upon the action of the Bank, and upon the feeling of the public, is brought into play at the very commencement of the evil.

3651. Then according to your view, the effect of the present Act is to induce the Bank of England to take precautionary measures earlier than they might do if the Act did not exist?—I think that that is rather an objectionable mode of stating the operation, though I do not mean to say that it is absolutely incorrect. The operation of the Act of 1844 is this, that the Bank notes, in other words the money, of the country must decrease as the drain of bullion goes on. That decrease in the money of the country must augment its value; that augmentation of its value must produce two effects; one is, that it causes a temporary rise in the rate of interest to which the Bank must conform; and the other is, that it induces the bullion merchants of this country to

write to their correspondents abroad, to say, "Money in relation to all other things has become more valuable in this country than it was, therefore in your transactions with us, remit money in preference to other things," and in that way the exchanges are soon rectified.

3652. It is perhaps scarcely necessary to ask your Lordship whether you accede to the opinion that the Bank has the power of regulating the rate of discount by its own action ; whether it can, in fact, be said to make the rate of discount?—If we are to go into the question of the rate of discount, it will, perhaps, involve many considerations and explanations. The rate of discount is the value of money, and that is regulated by one of two things. Generally in all its great and permanent fluctuations, it is really an alteration in the value of capital, in some of its minor fluctuations, minor as to extent and as to duration ; it may be the result of a decrease in the quantity of money. All great fluctuations in the rate of interest (and I am sure the more the question is watched and examined and sifted in detail, the more strongly that fact will come out), whether as to extent or as to duration, are really the result of an alteration in the value of capital. The alterations in the rate of interest which arise from any alteration in the quantity of money in the country are small, as regards their extent and more especially as regards their comparative duration. That they are very frequent, which I understand has been one of the objections raised, is in reality the very essence of their utility. The fluctuations in the rate of interest produced by changes in the amount of money in the country, are practically like the incessant oscillations of a tight rope dancer, by which he keeps the balance of his position apparently undisturbed, and that is really the character

of the slight out very continuous oscillations in the rate of interest arising from the alterations in the quantity of money in the country. All the great fluctuations in the rate of interest have reference to an alteration in the value of capital. [As this is a very important question, and many erroneous opinions arise from a mistaken view of it, I am glad to be enabled to support my statement by the joint authority of Ricardo, Adam Smith, and David Hume. "It is contended that the rate of interest, and not the rate of gold or silver bullion, is the criterion by which we may always judge of the abundance of paper money; that if it were too abundant, interest would fall, and if not sufficiently so, interest would rise. It can, I think, be made manifest, that the rate of interest is not regulated by the abundance or scarcity of money, but by the abundance or scarcity of that part of capital, not consisting of money, &c. It is maintained by Adam Smith, that the discovery of the mines in America, which so greatly increased the quantity of money, did not lessen the interest for the use of it; the rate of interest being regulated by the profits on the employment of capital, and not by the number or quality of the pieces of metal, which are used to circulate its produce.—"High Price of Bullion, &c." p. 57.

In his Essay on Interest, Hume says, "High interest arises from *three* circumstances: a great demand for borrowing; little riches to supply that demand; and great profits arising from commerce. Low interest, on the other hand, proceeds from the three opposite circumstances: a small demand for borrowing; great riches to supply that demand; and small profits arising from commerce."

The aggregate amount of money in the world must

have been largely augmented by the increased production of gold during the last ten years, yet the rate of interest throughout the world is unusually high. The operations of trade have been expanded with excessive rapidity, the demand for capital has proportionally increased, and a high price, that is, a high rate of interest is paid for it. More capital is required than can be immediately supplied; those, consequently, who have relied to the greatest extent upon borrowed capital are involved in embarrassment.]

3653. I think Mr. Newmarch and Mr. Mill have expressed an opinion to this Committee that the separation of the departments of the Bank of England has been the cause of more frequent and more inconvenient variations in the rate of discount than would have occurred if that separation had not existed; do you see any force in those arguments?—No, I see no force whatever in any of those arguments; I believe them to be not arguments; they are assertions, and I believe that they are assertions directly in the teeth of, and inconsistent with, the facts of the case. It is a question more of absolute fact than of reasoning; I have already stated, but perhaps it is better to restate, that the fluctuations in the rate of interest arise from one of two causes; an alteration in the value of capital, or an alteration in the amount of money in the country; all great fluctuations of interest, great, either in their duration or in the extent of the fluctuation, may be distinctly traced to alterations in the value of capital; two more striking practical illustrations of that fact cannot be furnished than the rise in the rate of interest in 1847, and during the last two years; the minor fluctuations in the rate of interest which arise from an alteration in the quantity of money are small both in

extent and in duration. They are frequent, and the more rapid and frequent they are, the more effectual they are for accomplishing their destined purpose without serious inconvenience to the public; with regard to the fact that the fluctuations in the rate of interest have been greater subsequently to 1844 than they were previously to 1844, I can only appeal to facts to settle that question; and the facts I am perfectly ready to lay before the Committee, and to trace the fluctuations of interest for a very long period, from the commencement, I may say, of our monetary system, to the present time. I begin with 1783, and quote the authority of Mr. Tooke: "This contraction of the currency was attended with a great rise in the rate of interest; consols fell from 68 to 54; omnium from a premium of 8 per cent. to below par. Every one, says Chalmers" (therefore there is Chalmers' authority as well as Tooke's), "must remember how impossible it was to borrow money on any security for any premium." The next period was 1793, and upon that subject I quote from Macpherson's well known *Annals of Commerce*. "Many houses of the most established credit failed. Houses of undoubted solidity, possessing ample funds, which actually did in a short time enable them to pay every shilling of their debts were obliged to stop payment. Some bankers, who, almost immediately on recovering from the first panic, resumed the regularity of their payments, were obliged to make a pause. Many, whom the temporary assistance of even a moderate sum would have enabled to surmount their difficulties, could not obtain any accommodation." In 1797, I quote again Mr. Tooke, "The effect of this extreme contraction was felt chiefly in the money market; Exchequer bills bearing $3\frac{1}{2}d.$ per day, were sold

at 60s. and 70s. per cent. discount, and it was said, that in some instances sales were made at 5*l*. discount. Navy and victualling bills were also at an enormous discount, and the 3 per cent. Consols fell below 50. Mercantile bills, excepting such as came within Bank time and regulations, were hardly negotiable at all, or were subject to heavy commissions, by way of evading the operation of the Usury Laws." Of course in measuring the rate of interest previously to the repeal of the Usury Laws, it will be borne in mind that the rate of discount avowedly could not exceed 5 per cent., but practically, it went far beyond it. In 1799, "the rate of discount at Hamburgh rose to 15 per cent., at which only the best bills, and to a very limited amount, could be made available." That is from Mr. Tooke's History of Prices. Now we come to the year 1825. The first evidence is a letter from an eminent merchant in New York, quoted by Mr. Tooke in his pamphlet, in 1826: "No bill of exchange can be sold here but on credit of two, three, or four months, and such is the precarious state of commerce, that such payments are hazardous in the extreme, and paper discounted at from $1\frac{1}{2}$ to 3 per cent. per month." That is at a rate of from 18 to 36 per cent. per annum. This, the Committee will observe, occurred under a system of free competition of issuing banks, subject only to the obligation of payment in specie. Again, Mr. Tooke says in his pamphlet, "the operation of the Usury Laws may be distinctly traced in a great aggravation of the distress among merchants and bankers during that critical period. Numbers who would gladly have given an advanced rate of 8 or 10 per cent." ("gladly have given," observe) "were driven to sell stock and goods at a loss of 20 or 30 per cent. for cash, compared with the price for time.

It is a matter of notoriety that extensive sales were actually made of stock at that difference, and it is within my own knowledge, that sales of goods for immediate money were made at a still greater sacrifice." Again he says, "One of the great difficulties which the Directors of the Bank of England have experienced in the regulation of their issues has arisen from the uniformity of the Bank rate of discount, while the market rate of interest has been subject to frequent and sometimes great variations." That is from Mr. Tooke's pamphlet of the year 1826, page 75, and I see that I have made a note, "Read the whole of this passage." He says again, "The only mode of obviating the inconvenience hence arising and of regulating the circulation upon correct principles, would have been by frequent and sometimes great alterations in the rate of discount." That is Mr. Tooke's own recommendation at page 78. Then again in the third volume of Mr. Tooke's History of Prices there is a whole section devoted to the dissection and exposure of the fallacies of a speech of Mr. Hume, who complained of the high rate of discount, and of the variations by the Bank. It would take too much of the time of the Committee to read it now; but I should really like to have the whole of that section put on the minutes; it is a very remarkable section, in which Mr. Tooke in his usual off-hand and summary manner disposes, with a considerable expression of contempt, of the whole speech of Mr. Hume; the purport of which was to complain of the fluctuations in the rate of interest and the rate of discount by the Bank. It is an important section, and well worth putting on the notes of the Committee. Having traced the fluctuations of the rate of interest so far, I took some pains to get as far as was possible the rate of interest

in the city, and I have here a statement of the fluctuations in the rate of interest allowed by brokers upon loans at call, and I think the Committee will see that the fluctuations before 1844 were, to say the very least of it, quite to the extent of anything since 1844, and I believe much greater. This is extracted from my own concern. In 1821, the latter part, the rate of interest upon loans at call was 5 per cent.; in 1822, the early part, it was $2\frac{1}{2}$ per cent.; again, in 1824, in the early part, the rate of interest was 2 per cent.; in 1825, in the early part, it was 5 per cent.; in 1826, in the middle part, it was 5 per cent.; and again, in 1827, in the middle part, it was down to 2 per cent.; in 1838, in the middle part of the year, it was $2\frac{1}{2}$ per cent.; in 1839, in the latter part, it had risen to $5\frac{1}{2}$ per cent.; then the partial suspension of the Usury Laws had begun to come into action. In 1840, the latter part, it was 5 per cent.; in 1843 it was 2 per cent.; and Mr. Hubbard himself has given a statement in his evidence, which I believe to be perfectly correct, that the value of money in 1843 fell quite as low as $1\frac{1}{2}$ per cent. I can state, of my own personal experience, that I have discounted millions of bills under 2 per cent. Then again, that is perfectly in harmony with the price of Exchequer bills. I have a statement of the fluctuations in the price of Exchequer bills. The price of Exchequer bills in 1825, in January, was 62s. premium; in December it was 85s. discount. Now the Committee will remember that the premium and the discount upon an Exchequer bill are in reality the rate of interest for a small portion of the year; because at the end of the period for which the bill runs it commands par from the Government. In 1826, in April, it had gone up again to 10s. premium; then again in 1838, in October,

Exchequer bills were at 70s. premium ; in 1839, in October, they were at 6s. discount ; and in 1844, in October, they had again gone up to 79s. premium. I apprehend that, in the teeth of those facts, it is quite idle to talk of increased fluctuations in the rate of interest caused since the Act of 1844, as compared with the state of things which occurred in every period of pressure previous to 1844.

3654. If a speculative spirit is rising, and there is a demand for capital greater than the means of satisfying it, and the consequence is that the rate of discount rises, and thereby causes a pressure upon trade, is it at all clear that that pressure is an evil and not a good?—It is perfectly clear that that pressure is salutary in its influences, if there be an undue tendency to enter into transactions beyond the extent to which capital will support them ; the increased demand for, and therefore the increased value of, capital which so arises, ought to be left to produce its natural effects, which natural effects are necessarily salutary and wholesome effects.

3655. If that pressure did not arise at an early period the result might be that there would be a commercial crisis, might it not?—Undoubtedly ; that is a principle intimately connected with all our great commercial crises ; first of all, from some of those circumstances which affect the sympathies of mankind, a speculative spirit arises ; that creates a demand for money, money being merely the special instrument of obtaining capital. If that money is allowed to rise in value, in proportion to the demand for it, the correction follows in a gradual and natural and wholesome form ; but if that demand for money is met by increased issues of paper, and when I speak of increased issues of paper, I hope I shall be clearly

understood to mean either an absolute increase in the amount of money in the country, or the maintenance of the existing amount when the drain of the precious metals out of the country requires a decrease of the amount, for they are precisely the same in principle, if that demand for money is to be supplied by the continuous putting out of paper money, then the corrective influences are delayed in their operation, and in proportion to the delay of their operation the ultimate evil, and difficulty in correcting the evil, are greatly augmented.

3656. Those who complain of the Bank for keeping up a high rate of discount assume that a high rate of discount is necessarily an evil, do they not?—I cannot at all say what they assume, for they seem to me to assume anything that suits them at the moment, one thing being contradictory to the other.

3657. When they complain of the Bank as exercising an improper discretion in raising the rate of discount unnecessarily, is not the very essence of that complaint the assumption that a high rate of discount is a public evil?—We must of course clearly distinguish between an arbitrary action on the part of the Bank, and a real rise in the rate of interest; a real rise in the rate of interest, whether it be convenient or inconvenient, must be the natural and necessary course of things, and any artificial interference with it must produce evil. If the Bank arbitrarily raises its rate of interest, that can exist only for a very short period. The Bank is not the governor of public events, it is the servant of public events. The fault that the Bank has usually committed has been not conforming to the natural fluctuations in the rate of interest. When the rate of interest has naturally been rising on former occasions, the Bank has been slow and

tardy in conforming to that natural increase in the value of money, and mischief has ensued from it; but the Bank would always best serve the public, if it were to conform as strictly and as speedily as is possible to the real market value.—[Ricardo makes the following important and, indeed, conclusive statement, with respect to the supposed influence of the Bank of England over the rate of interest:—"The rate of interest is not regulated by the rate at which the Bank will lend, whether it be five, four, or three per cent., but by the rate of profit which can be made by the employment of capital, and which is totally independent of the quantity and of the value of money. Whether a bank lend one million, ten millions, or a hundred millions, they would not permanently alter the market rate of interest; they would alter only the value of the money which they thus issued. In one case ten or twenty times more money might be required to carry on the same business, than what might be required on the other. The applications to the Bank for money, then, depend upon the comparison between the rate of profits that may be made by the employment of it, and the rate at which they are willing to lend it. If they charge less than the market rate of interest, there is no amount of money which they might not lend; if they charge more than that rate, none but spendthrifts and prodigals would be found to borrow of them. We accordingly find, that when the market rate of interest exceeds five per cent., at which the Bank uniformly lends, the discount office is besieged with applicants for money; and on the contrary, when the market rate is even temporarily under five per cent., the clerks of that office have no employment."—"Ricardo's Principles of Political Economy," 1st edit. p. 511.]

3658. What I understand Mr. Newmarch, and, I believe, Mr. Tooke to object to as respects the Act of 1844 is, not so much the high rate of interest, as the variations in the rate, which they attribute to the Act, and Mr. Newmarch even suggested that the Bank ought never to use a lower rate of discount than 4 per cent. What do you think of that proposition?—I think it wholly unreasonable and untenable; I can give no other answer. [In the present advanced state of public intelligence it is surely impossible that any well-informed person can seriously recommend the attempt by arbitrary and violent measures to resist the natural course of things. The remedy for any supposed evil can be found only in measures which are founded upon some clear and intelligible principle. If there be a natural tendency to a fall in the rate of interest, this will not be corrected by a refusal on the part of the Bank to conform to the natural price of money. Such a step will not obviate the evil, if an evil it be. But it may, and in all probability it will, cause much mischief by interrupting and delaying the timely and gradual application of the true, because the natural, correction. Regularity of supply and consequent steadiness of price is in all cases more promoted by the free competition of the public than by any arbitrary or artificial measures. This is true of money, as of all other things.]

3659. What, in your view, would be the result of an attempt on the part of the Bank to act upon any such maxim as that of never establishing a lower rate of discount than 4 per cent.?—The result of course would be, that whenever the natural value of money or of capital was below 4 per cent., all the discount business of the Bank would pass away, and capital would be obtained through other channels, at a lower rate.

3660. Would not the Bank then be induced to lend by other means, so as practically to avoid its own maxim?—No doubt. The Bank, if it could not lend its money by discount, would seek to lend it through other means. We have had that phenomenon occurring before. The Bank would be lending money upon railroad bonds; it would be purchasing stock; it would be using every means by which it could lend its money. Therefore the supposition in that form amounts to nothing; it is a mere transference of the form of advance from a discount to some other mode of advancing. If you try the supposition at all, you must suppose that the Bank ceases to employ its capital; a supposition which, I think, it is not worth while discussing, because it is a pure gratuitous theory which has no practical reality.

3661. It was stated by, I think, Mr. Newmarch, that the operation of the present Act in cutting the bullion into two parts, the larger part of which was in the Issue Department, and the smaller part in the Banking Department, had a mischievous effect in increasing the variations of the rate of discount. Do you recognise the connection between cause and effect?—I think I might safely leave it to the Committee to judge of the value of that observation; I do not wish to criticise such statements as those.

3662. You do not attribute any value to that remark?—Certainly not. [The bullion in the Banking Department is of very small amount. It is held by the Bank for the daily convenience of fractional payments, as the small change is held in the till of every private concern, or in the pocket of each private individual. It can in no way affect any question of principle. But the case would not be different were the bullion in the Banking Department of much larger amount. It matters little where the

bullion lies. If it be dormant in the Issue Department, then it is represented by an equivalent amount of notes active in the Banking Department. If, on the other hand, the bullion be transferred to a state of activity in the Banking Department, then an equal amount of notes previously in a state of activity, must be returned to lie in a cancelled state in the Issue Department. The Bank notes are merely the representatives of the bullion, and it cannot be a matter of any practical importance whether the Banking Department hold a certain amount of coined gold, or an equal amount of Bank notes representing that gold.]

3663. Following up your view as to the importance of the separation between the two departments of the Bank, does it appear to you desirable that the law should remain in its present state, or that any attempt should be made to separate the Issue Department more completely from the Banking Department?—I think that the Issue Department is now effectually and completely separated from the Banking Department. The only consideration which bears upon that question is, that, from the mere fact of their being carried on under the same roof, a certain portion of the public cannot yet divest their minds of the impression that there is some union between them. Whether any further separation would be desirable, for the purpose of medicating to that weakness, I really cannot undertake to say, but I think that, upon the whole, the thing is in a satisfactory state. You have obtained all the great results at which you aimed; you have obtained those results with perfect consistency with the uninterrupted development of the prosperity of the country; you have had the approval of those who have had to watch the operation of the Act in their declaration, that they see no

reason for disturbing it, and that they wish to have it continued in its present form; and I think, under those circumstances, that as respects any further disturbance of the department by moving it elsewhere, the considerations are not sufficiently powerful to make that at all desirable.

3664. Let me call your attention to two questions which were put to you in the Committee of 1848, by Sir William Clay; they are Questions 5282 and 5283. Sir William Clay asked you: "Do not you think it might tend to a more wholesome state of feeling in the public mind, if the issue of notes were separated from the Bank, and taken out of their hands?" To which you replied: "Yes, I think so." Then he proceeded to say: "It might be made a department of the State, or some department connected with the State, and kept wholly free of the Bank, leaving to the Bank of England their functions as the bankers of the State, but taking wholly out of their hands the issue of notes?" Your answer was: "I think the more the management of the circulation is separated from the banking business, not only in reality, but in appearance, the more beneficial it will be to the public interest." In that answer you do not express any opinion in favour of a State Bank, but merely give a general opinion in accordance with what you have stated to-day in favour of the separation of the functions of banking, and of issuing paper. With respect to Sir William Clay's question as to making the Bank of Issue a department of the State, what is your present opinion, from your experience?—I think it is rather unfortunate that we have the term "Bank" associated with the Issue Department; and I think that some vague impressions arise in the public mind from that form of expression. I certainly think it quite essential that the issue of paper

money should be kept entirely separate and distinct from everything connected with banking business. The objection to putting it more avowedly and distinctly in the hands of the Government than it is at present, I think is of this nature, that so long as there exists in the public mind an impression that pressure upon the trading world is associated with the management of the monetary system of the country, it might be very inconvenient to place that monetary system more avowedly in the hands of the Government; and I must also observe, that I think the interposition of some responsible body, between the Government and the management of paper issues, might be exceedingly convenient in strengthening and assisting the Government to resist pressure which might come upon it at certain periods, to do that which it ought not to do.

3665. On the whole, you would not be disposed to recommend any change similar to that contemplated in the question referred to, namely, the withdrawal of the business of issue from the Governor and Company of the Bank of England, and the placing it in the hands of a body nominated by the Government or by Act of Parliament?—I must again say, that I dislike the expression of the business of issue being in the hands of the Governor and Company of the Bank of England. I consider the business of issue to be in the hands of the Issue Department, and in the hands of the law of the country. The Governor and Company of the Bank of England have no power in the matter of any sort or kind; they are merely the clerks who have to do the business which the law has ordained.

3666. Still the Issue Department requires some management, and the law vests that management in the

Governor and Company of the Bank of England, does it not?—Yes; but I think it very important to distinguish that it vests in the Governor and Company of the Bank of England, the mechanical duties which must be discharged; but it invests them with no discretionary management whatever with regard to the issues, and therein it is that the whole essence of the distinction consists.

3667. Surely the amount of bullion which may be in the Issue Department must in some degree depend upon the discretion of the Directors of the Bank?—Not in the slightest degree. That brings us at once to the very pith and heart of the whole of this question. It is quite the reverse of that. The whole community are perfectly free, according to their own discretion, to deposit bullion in the Issue Department, and against the bullion so deposited in the Issue Department, the Issue Department is bound, and has no discretion in the matter, to issue notes. The Bank of England have no discretionary power whatever over the bullion in the Issue Department.

3668. You do not hold that the Bank of England have any power of increasing the bullion in the Issue Department by any act of theirs?—They have no power of increasing the bullion in the Issue Department by any direct act of theirs. The Bank by those various actions which influence the exchanges, may draw more bullion into the country, and so increase the bullion in the Issue Department; they have no other power than that.

3669. Do not you hold that they have a power of diminishing the quantity of bullion in the Issue Department by their acts?—They have no more power to do it than I have, or you have. They may take notes to the Issue Department and may demand bullion in exchange

for those notes, as anybody else may do ; but they have no other power than that.

3670. At all events it would be possible by Act of Parliament to put an end to the present law which regulates the issue of Bank notes from the Issue Department, and to transfer that issue to a body, either appointed by the Government, or constituted under the direct authority of an Act of Parliament, would it not?—According to my view of the matter, that would be no transference at all ; it would be merely a change of name ; instead of the Issue Department, you chose to put the word “ Mint,” or “ The Chancellor of the Exchequer,” or any thing else that you like. It seems to me that it is at present in substance entirely separate, and that the whole question is merely a question of form. You may alter the form, but the substance is accomplished already.

3671. Then your view is, that the present law has subjected the Issue Department to the power of mechanical laws, if one may say so, and that any transfer of the nominal managing authority would be formal, and not real?—I apprehend that is not a matter of opinion ; there can be no doubt of that fact.

3672. Assuming that the issue remains as at present, would it be, in your judgment, desirable to extinguish the right of issue by country banks, and to provide for the whole paper circulation of England in the first instance, by Bank of England paper?—There can be no doubt that that is a state of things which all principle would lead to. The present system of country issues which exists in the United Kingdom is undoubtedly a complete anomaly. We have it, and we do not very well know how to get rid of it ; but I apprehend that no intelligent person can say that he likes the system, or that he approves of it. At the

time when the Act of 1844 was passed, there were two modes of dealing with the subject, which might have been taken. One would have been, to have endeavoured, by a sort of bold act at the time, to eliminate the whole of that anomalous system of country issues, from the monetary system of the country ; the other course was, to trust to the absorption of them by the gradual process of natural causes. Sir Robert Peel thought the latter the wise course to take, and I certainly think, that as a practical statesman, he exercised a sound discretion upon the subject. I should, myself, be disposed to follow out his policy. Of course, following out his policy involves this, that nothing must be done in any degree to extend or to strengthen those country issues, but that all the tendencies of your law must be, to carry out that policy of gradually absorbing this system through the operation of natural causes.

3673. The Act of 1844 contains within itself evidence that the extinction of the country bank circulation of England was then contemplated, does it not?—I think that it contains evidence of a desire to see that circulation controlled and ultimately extinguished, but I think that it contains clear evidence that the putting a fixed limit to the amount of that circulation was deemed by Sir Robert Peel to be the accomplishment of the main and great object respecting it, and that after that was effectually accomplished, the evil of the country circulation was so greatly mitigated, that it was not necessary to be over anxious with regard to its further progress.

3674. The composition clause appears to have had for its object the gradual extinction of the country bank issues by voluntary means?—Certainly.

3675. Then Section 25 is to this effect : “ Be it enacted, that all the compositions payable to the several

bankers mentioned in the Schedule hereto marked (C.), and such other bankers as shall agree with the said Governor and Company to discontinue the issue of their own bank notes as aforesaid, shall, if not previously determined by the act of such banker as hereinbefore provided, cease and determine on the first day of August, One thousand eight hundred and fifty-six ;” that has passed, “or on any earlier day on which Parliament may prohibit the issue of bank notes.” Do not those latter words appear to you to show that when this Bill was drawn, the framers of it had in contemplation the possible prohibition of the issue of country bank notes even before the 1st day of August 1856?—I have not particularly attended to the meaning of those words; the Committee are much better capable of judging of the real import of them than I am, but I think it highly probable that it was in the mind of Sir Robert Peel that circumstances might require some determined action with regard to the country issues.

3676. The operation of the composition clause has hitherto not been considerable?—No.

3677. Do you think that its operation has been in any way arrested by the war, and by the high rate of interest during the last two years?—I am hardly competent to give an opinion upon that point; I should think that it must have been a very slight influence, if any.

3678. In fact, few compositions took place even during the period of low interest and previously to the war?—I apprehend that the country issues are quietly subsiding, that the public are losing their attachment to the country issues; that they are becoming more and more convinced of the reasonable character of the Act of 1844, and of the truth and soundness of the great principle upon which that Act is founded. I believe that the country issuers

themselves are learning to appreciate their issues at a much lower point than they used to do, and consequently the whole of those issues are becoming year by year less efficient in their action as a portion of the money of the country, and that they may be safely left to die away; it is the flickering of the candle which is going out.

3679. Then you would not recommend any legislative measure to accelerate the extinction of the country issues?—I entirely agree in the principle clearly set forth by Sir Robert Peel, when he was planning the Act of 1844, that these discussions upon the subject of the monetary system and the banking regulations of the country are exceedingly inexpedient and mischievous, and that they should be avoided by every possible means; and I certainly think there is no good to be derived from now dealing with the country issues at all comparable to the evil that may arise from disturbing existing arrangements. [This opinion is perhaps stated too strongly, and requires some qualification. It is “not advisable unnecessarily to agitate questions affecting the banking interests and the currency of the country,” because all such discussions must tend to unsettle the public mind and to encourage it to look for changes in the existing system, with respect to which change, unless absolutely requisite, is very inexpedient, a feeling of stability and permanence in the system being essential to its efficiency. This appears to have been the view of Sir Robert Peel and Mr. Goulburn. And this view is not inconsistent with the recognition of the principle that free and full discussion is essential to sound legislation, as the only sure means by which we may get rid of bad laws, or secure the amendment of those which are imperfect. In the present instance the Act of 1844 might, I think, have

been safely renewed without the present preliminary discussions; at the same time the expectation may be reasonably entertained that the effect of these discussions will be to diffuse more widely a correct understanding of the principle of the measure, and thus to strengthen and consolidate the public confidence in its policy.]

3680. One of the proposals which have been made with respect to the country issues, and one of the petitions which the parties themselves now make is, that they may be allowed to issue against bullion in excess of their present limits, upon the same principle as is adopted in the case of the Scotch and Irish banks; what would you think of that change?—My answer to that question is involved in the answer which I have already given, that I think it would be entirely inconsistent with the whole principle upon which Sir Robert Peel proceeded to do anything which should directly or indirectly strengthen or foment the country issues. The principle is to extinguish them gradually and quietly without making a disturbance; but constantly to keep your eye upon the ultimate object in view, namely, the extinction of the country issues.

3681. Do you think that we are making at our present rate of change any considerable advance towards the extinction of the country issues?—I think we have pretty nearly extinguished all the serious evils which arise from them; I do not at all mean to say that there are not still some very serious objections to them; but upon the whole the result of my judgment would be that it is better to let things go on as they are.

3682. It appears that in October 1844 the total issues of the country banks were 8,058,614*l*.?—Yes.

3683. In May 1857 they were 6,934,621*l*.?—Yes.

3684. That shows a diminution of about 1,000,000*l*. If you will cast your eye down the pages, you will see that the variation since 1844 has not been very considerable ; it has been about 1,000,000*l*. in 13 years ?—Yes.

3685. Then it cannot be said that we are making any very rapid progress towards the extinction of the country bank circulation ?—That is a question which the Committee can judge of as well as I can. I think that the progress is much more decided towards the extinction of the inconveniences which attend the country issues, than it is to the extinction of their absolute amount. But at the same time I perfectly admit that there are many, and I think some very serious objections still to be urged against the existence of the country issues. The two objections which I should urge, are not those which I think have generally been urged. The two objections which strike me against the continuance of the country issues are these, first, that in the returns which we have of the country issues, the vital defect still exists, that with respect to them the banking reserve is suppressed ; and, secondly, that the whole action of the foreign exchanges falls exclusively upon the Bank of England, and in no degree whatever reaches the country issues. Upon those two grounds I think that objection may be raised to the continued existence of the country issues, and if as a matter of practical expediency the financial department of the Government can see their way to extinguish the country issues, without violent offence to feeling and to ancient habits, and to supposed vested interests, I shall be glad to see them extinguished.

3686. Would you apply a similar remark to the Scotch and Irish issues ; do you think it would be desirable to take any means for substituting the Bank of England

paper for those issues?—My remark is founded upon general principle, and therefore is universally applicable; but I have not said, nor am I prepared to say, that I think it desirable to take strong measures for the purpose. If the Government can see their way to do it without raising indirect difficulties of a formidable character, I shall be glad to see it done; but that is a question of practical detail which the Government must judge of.

3687. We require that the Bank of England should issue to a certain point against securities, and beyond that point against bullion, but with regard to the banks of issue in the country no similar security is taken, there is merely a limit placed upon their issues. Would it in your judgment be desirable to require any security for the issues of the country banks of England?—I think, that if you are prepared to deal with the country banks in so serious a matter as that, you had then better go a step further and endeavour to extinguish the country issues. My feeling is, that the evils to be corrected are not so great as to justify you in encountering the formidable difficulties which I apprehend to stand in your way. But as I said before, the extent and importance of those difficulties is a matter of practical estimate, which it belongs to the financial department of the Government to form its judgment upon, rather than any particular individual.

3688. There is a question on which various witnesses have expressed opinions to this Committee, perhaps it is rather a theoretical than a practical question; but we should be glad to know your view upon, it is this; suppose two country bankers to be in the same neighbourhood, with no law limiting their issues, except that of the

note being convertible, would they have the power, by competing with one another, to increase their issues at their own will and without the action of the public?—If that question is intended to raise a discussion upon the whole of that extraordinary doctrine which has been propounded to this Committee; namely, the inability of banks which are banks of deposit, as well as of issue, to exercise any regulating control emanating from themselves over their own circulation, of course we must go into it in a very comprehensive form. If it is limited to the simple question whether two country issuers competing with each other can, through that competition, force out more issues than they had before, I think the answer which I should give to it is this; that I should look upon the issues of the country bankers as likely to be increased, not so much by direct competition with each other, as by the disposition of the country bankers to support the speculative or expansive tendency pervading their district by increasing issues to meet that speculative or expansive tendency, those increased issues not being warranted by any increase in the money of the country in the form of import of bullion.

3689. The practical question with regard to this matter is, how far the tendency of the control of bankers over issue is dangerous, and therefore requires to be restrained by positive law?—I have no hesitation in giving my opinion upon that point, that the bankers entrusted with the power of issue, are entrusted with a power of a very dangerous character; one that has been repeatedly abused, and by the abuse of which, the public has repeatedly suffered serious injury.

3690. To return to the question of the Bank of Eng-

land, the Act of 1844 first introduced the rule with respect to the 14,000,000*l.* and the issue of everything in excess upon bullion, it has been suggested that the limit of 14,000,000*l.* is at present too low; would you be in favour of in any way altering that limit?—I am not myself at all prepared to recommend any alteration of that amount; I think the call for an increase, as far as I am able to judge, is founded upon a very erroneous view; I believe that those who call for the increase of issue upon securities from 14,000,000*l.* to 16,000,000*l.* anticipate from that step an increase in the total amount of the money of the country and great facility to trade and commerce to arise from that increase; if it be so, they are acting under a complete delusion. The quantity of money which any country can retain for the adjustment of its transactions is a matter not within the control of any law or of any particular body, it is determined by the great events of the world, which assign to each respective country a certain quantity of the money of the world; those laws assign to this country a certain quantity of money, and that is entirely beyond the control of the Legislature. It is within the power of the Legislature to determine of that given quantity of money what proportion shall be paper money issued upon security, and what proportion shall be paper money issued against bullion; and if you choose, it is undoubtedly within the power of the law to authorize an increase of the paper money issued against security from 14,000,000*l.* to 16,000,000*l.*; but the inevitable and immediate result of that would be a decrease in the quantity of paper money issued upon bullion, so that the final result would be that whatever you suppose to be the minimum amount of bullion which we

now retain under severe pressure, say, 8,000,000*l.* under that alteration of the law, it would be 2,000,000*l.* less, therefore it becomes a mere practical question whether it is safe to trust the monetary system to rest upon a minimum basis of bullion 2,000,000*l.* less than that upon which it rests now; I think some serious doubts may be entertained whether that would be perfectly safe; but at all events, I think that the advantage of being more than perfectly safe, the advantage of being beyond the reach of all question, and beyond the possibility of any doubt, however foolish or unfounded, arising in the public mind as to the adequacy of our store of bullion, is so valuable and so important that the little benefit to be gained from the issue of 2,000,000*l.* of notes upon securities is not to be weighed for one moment against it.

3691. You entertain no doubt that the practical effect of enlarging the limit from 14,000,000*l.* to 16,000,000*l.* would be not to add 2,000,000*l.* to the paper currency, but to diminish the bullion reserve of the Bank by 2,000,000*l.*?—No person who understands the elements of the subject can entertain a doubt upon that point. It would cause an increase of 2,000,000*l.* in the amount of paper notes issued against securities, at the same time it would cause a decrease of 2,000,000*l.* in the amount of paper notes issued against bullion. There would be no absolute increase in the aggregate amount of paper money. There would be in the Issue Department an increase of securities, and a decrease of bullion in each case to the extent of two millions. [The quantity of money which can be retained in this country is determined by circumstances which we cannot arbitrarily regulate by our legislation. If we increase the quantity of money autho-

rized to be issued upon securities, the effect must be an export of an equal amount of bullion, causing a corresponding decrease in the amount of paper money issued against bullion. The total amount of money, other things being unaltered, must remain the same, whatever changes may be made in the proportion issued upon securities and in that issued upon bullion. This fundamental principle is clearly set forth by Mr. Ricardo, in his reply to Mr. Bosanquet, p. 93; "I have endeavoured to show, that previously to the establishment of banks, the precious metals, employed as money, were necessarily distributed amongst the different countries of the world in the proportion that their trade and payments required; that whatever the value of the bullion so employed for the purposes of currency might be, the equal demands and necessities of all countries would prevent the quantity allotted to each from being either increased or diminished, unless the proportions in the trade of countries should undergo some alteration, which should make a different division necessary; that England, or any other country, might substitute paper instead of bullion for the uses of money, but that the value of such paper must be regulated by the amount of coin of its bullion value, which would have circulated had there been no paper."

Again, "If, whilst the Bank paid their notes on demand in specie, they were to increase their quantity, they would produce little permanent effect on the value of the currency, because nearly an equal quantity of the coin would be withdrawn from circulation and exported."—Ricardo's Pamphlet, "High Price of Bullion, &c." p. 53.]

3692. You consider that as certain as anything which

cannot be made a matter of mathematical demonstration, do you not?—I consider it to be as fundamental in discussing this subject as a definition of Euclid is in discussing any of the works of Newton.

3693. Supposing that the bullion of the Bank was diminished by that 2,000,000%, probably it would be exported, or at any rate it would be diffused over the bullion circulation of the whole world?—Undoubtedly.

3694. Whatever relief was afforded to trade would merely be momentary?—The relief afforded to trade, I think, may be thrown out of the question; it clearly does not touch the principles which we are discussing; one may fairly say, that there would be no relief afforded to trade; it would be temporary to so slight a degree that it is not worth speaking of.

3695. With regard to the operation of the clause in the Act as to replacing abandoned country note circulation by Bank of England issues, at present, when a certain sum has been abandoned, the Bank of England may, by order in Council, be permitted to issue to the extent of two-thirds of that sum; it has been suggested that the Bank of England might be permitted to issue to the whole amount; does that appear to you to be a change of any importance?—I think it is not worth talking about; I think it is a matter of no consequence at all.

3696. On the question of 1*l.* notes, you are, of course, aware that the law is different in the three kingdoms; that is to say, that in England it is different from the law in Ireland and Scotland; would it be, in your opinion, advantageous to assimilate the law in the three kingdoms, either by introducing 1*l.* notes in England, or by suppressing them in Scotland and Ireland?—I have no hesi-

tation in giving a decided opinion against introducing 17. notes into England. With respect to suppressing 17. notes in Scotland and Ireland, there may be practical considerations creating some difficulty; of the force of those I am a very incompetent judge. As a general principle, I think that the system established in England is unquestionably the right one; that it is desirable that the smaller moneys of the country should be in a metallic form, and principally for this obvious reason, that alarm and panic are liable to arise amongst those classes where intelligence and education are the least, and that therefore as respects the money which those classes principally deal with, it is desirable to have it in that form which is not susceptible of the mischievous consequences arising from alarm.

3697. You are doubtless well acquainted with the state of the circulation in the manufacturing district of Lancashire. Is there any country bank paper in circulation in that district?—There was not when I was more actively engaged in the business of banking, and had more personal knowledge of the state of things in Lancashire.

3698. There are no country banks of issue in that neighbourhood?—I believe not.

3699. In what manner are the vast commercial transactions of that district carried on; are they conducted as in London?—Yes, as in London, with the exception that of course there is a little difference in the mode of doing business in the provinces from what is the case in London, where you have immediate access to the great central source of issue, but there is no difficulty of any sort or kind; it is as easy and as simple as anything can possibly be.

3700. Is the paper money in circulation in that part of the country exclusively Bank of England paper?—Exclusively Bank of England paper.

3701. There is nothing in the law which discourages or prevents the existence of country banks of issue in that district of England more than in other parts of the country?—No. How it has originated I do not know, but it has undoubtedly been continued by the good sense of the community there. I remember one occasion, many years ago, on which there prevailed an idea of the great advantages to be derived from country issues, and a very strong pressure was put upon us to put forth a paper issue of our own, and we were so pressed that we were obliged to make preparations for so doing very much against our own will. However, on further discussion we found that that feeling subsided a little, and we gladly availed ourselves of that circumstance to stop the whole thing, and I certainly have from that time to this, always rejoiced that that measure was stopped.

3702. The credit operations of that district are very large, are they not?—They are very large indeed.

3703. Has it ever been suggested that greater accommodation would have been given to trade, if there had been numerous banks of issue in that part of the country?—Undoubtedly, at different times that idea has been thrown out, but the people of South Lancashire are a very intelligent, and a very thoughtful class of people, and the higher classes have always, on reflection, come to the conclusion that they are much better and safer without those issues.

3704. I think the result of your opinion seems to be, that whatever argumentative and logical anomalies may

ness of capital, that is, its capacity when invested to yield 10 or 12 or 20 per cent. surplus is the permanent and ultimate regulator of the rate of interest, and finally overrides all accidental causes of variation, whether fluctuations in the demand and supply of capital or any other cause.]

3750. Then, does your Lordship mean that there is a less capital than there was, when there is a more continuous yet temporary increase in the rate of discount than usual?—Less, in one sense of the word. The proportion between capital and the demand for it, is altered; it may be by an increased demand, not by a diminution of the quantity of capital.

3751. What is the capital which you particularly allude to?—That depends entirely upon what the capital is which each person wants. It is the capital which the country has at its command for conducting its business, and when that business is doubled there must be a great increase in the demand for the capital with which it is to be carried on. That increase of demand for the capital with which the business must be carried on, must create an increase in the price of it. Capital is like any other commodity, it will vary in its price according to the supply and demand.

3752. The changes in the rate of discount are generally connected with the changes in the amount of gold which there is in the coffers of the Bank. Is it that capital to which your Lordship refers?—No. I have already stated that the great changes in the rate of discount are not so connected. I have stated that the small fluctuations in the rate of interest may be connected with an alteration in the quantity of money in the country, but that all the great and important fluctuations in the

rate of interest have reference to the relation between the supply and demand of capital. [Temporary circumstances, such as the negotiation of loans, mercantile pressure in other countries, a disturbed state of the exchanges, or sudden demands for capital from whatever cause arising, must no doubt exert a temporary influence over the rate of interest; but it is the productiveness of capital, *i.e.*, the rate of profit, which finally regulates and determines the rate of interest.]

3753. Can your Lordship point to any instance in which there has been a large store of capital in the Bank of England connected with a high rate of discount?—The Bank of England is not a place for the deposit of capital, it is a place for the deposit of money.

3754. Your Lordship has stated that the rate of interest depends upon the amount of capital; will you be kind enough to state what capital you mean, and whether you can point to any instance in which there has been a large store of bullion in the Bank, and at the same time a high rate of interest?—It is very probable that the accumulation of bullion in the Bank may be coincident with a low rate of interest, because a period in which there is a diminished demand for capital is a period during which, of course, the means or instrument through which you command capital may accumulate.

3755. Then you think that there is no connection between the rate of discount and the amount of bullion in the coffers of the Bank?—There may be a connection, but it is not a connection of principle, there may be a coincidence of time. I can only repeat that the rate of discount is really an indication of the value of capital, and that whenever discount is for any length of time high, it

is because there is a great demand for capital. [A drain of bullion in this country is very frequently the result of an increased demand for capital in some other quarter. A large loan contracted in another country, which is in fact a peculiar and extraordinary demand for capital in that country, will produce a pressure upon our exchanges, an export of bullion and a consequent rise of interest in this country. Take another example of recent occurrence. The trading spirit and enterprize of the United States exceeds its due bounds; transactions are entered into beyond the amount of capital requisite to sustain them. More capital is required for that purpose than the country can supply. A crisis, ending in a panic, ensues. The rate of discount runs up to 20 per cent., and even still higher. What is the unavoidable effect which this extraordinary demand for additional capital in the United States produces upon our monetary condition—upon the bullion and upon the rate of interest in this country? Every payment due to us from America is as far as possible suspended—special credits upon this country are eagerly sought, and drafts upon England drawn against them—the price of public securities in the United States suffers a great depreciation—and English capitalists tempted by the favourable opportunity invest in these securities; and thus their capital is drawn from this country to the United States. The inevitable consequence of these processes is a drain of bullion followed immediately by a rise in the rate of interest. The circumstance immediately preceding the rise of interest, the apparent proximate cause of that rise, may be the drain of bullion. But it is a very short-sighted philosophy which stops at that stage of the inquiry. The drain of bullion is an effect.

rather than a cause. The decrease of bullion and the rise of interest are simultaneous effects of a common cause, viz., the sudden demand for further capital in the United States, which reacts in the manner already stated upon the money market of this country—disturbs the exchanges and renders a rise of interest in this country prudent and useful as a measure of protection, and inevitable as being the result of circumstances altogether beyond our control.]

3756. I should be very much obliged, as one of the Committee, if your Lordship would define more distinctly the difference between money and capital?—Perhaps the better way is to take a practical illustration. Go into any great district of this country; go into Lancashire, and go to one of the persons who are undertaking very large manufacturing processes, and say to him, “Now here is 100,000*l.* of money to go on with; but mind you must keep it as money; you must keep it in your pocket; now carry on your business; the money is capital; you must not go and hire a warehouse; you must not go and hire a quantity of labourers and pay them their wages, which is in reality paying them in the form of provisions and clothing, and so on; you must keep it as money.” Of what use would the money be? It is only as an instrument for commanding capital that money is useful to anybody. [This principle may be confirmed by endless references to the highest authorities. “In order to put industry into motion three things are requisite—materials to work upon, tools to work with, and the wages or recompense for the sake of which the work is done. Money is neither a material to work upon, nor a tool to work with; and though the wages of the workman are commonly

paid to him in money, his real revenue, like that of all other men, consists not in money, but in money's worth; not in the metal pieces, but in what can be got for them."

—Adam Smith, quoted and adopted by Ricardo.

"When any one borrows money for the purpose of entering into trade, he borrows it as a medium by which he can possess himself of materials, provisions, &c. to carry on that trade; and it can be of little consequence to him, provided he obtain the quantity of materials, &c., necessary, whether he be obliged to borrow a thousand, or ten thousand pieces of money. If he borrow ten thousand, the produce of his manufacture will be ten times the nominal value of what it would have been, had one thousand been sufficient for the same purpose. The capital actually employed in the country is necessarily limited to the amount of the materials, provisions, &c., and might be made equally productive though not with equal facility, if trade were carried on wholly by barter. The successive possessors of the circulating medium have the command over this capital; but however abundant may be the quantity of money or of bank notes; though it may increase the nominal prices of commodities; though it may distribute the productive capital in different proportions; though the Bank, by increasing the quantity of their notes, may enable A to carry on part of the business formerly engrossed by B and C, nothing will be added to the real revenue and wealth of the country. B and C may be injured, and A and the Bank may be gainers, but they will gain exactly what B and C lose. There will be a violent and unjust transfer of property, but no benefit whatever will be gained by the community."—Ricardo, "High Price of Bullion, &c." p. 56.]

3757. Did I rightly understand your Lordship to say that the money was the capital?—No, I said just the reverse; I say that with money, retained as money, and not used as the means of obtaining capital, you can do nothing; you might just as well have a parcel of old iron. When I was a child, a sovereign was given to me, with a grave admonition, that as long as I kept that sovereign in my pocket I should never be without money; but I soon found that no good came to me from keeping the sovereign in my pocket. [“Gold produces no benefit to the holder as gold; he cannot eat it, nor clothe himself with it; to render it useful, he must exchange it either for such things as are immediately useful, or for such as produce revenue.”—Ricardo, “Reply to Bosanquet,” p. 83.]

3758. Do I rightly understand you to say, that the difficulty of merchants in this country, under a state of pressure, in consequence of a high rate of discount, is in getting capital and not in getting money?—You are putting two things together which I do not join in that form; their difficulty is in getting capital, and their difficulty also is in getting money; but it is in getting money not to keep it as money, but merely as the means through which they are to get the capital. The difficulty of getting money, and the difficulty of getting capital, is the same difficulty taken in two successive stages of its progress.

3759. Money is merely a means whereby capital is obtained?—Now we have got to a common *locus standi*.

3760. But a higher rate of discount is an increased difficulty of getting money?—It is an increased difficulty of getting money, but it is not because you want to have the money; it is only the form in which the increased

difficulty of getting capital presents itself according to the complicated relations of a civilised state.

3761. Is your Lordship of opinion, that when the expression is used that there is less capital in the country, it is not gold which is meant, but capital generally?—That expression is very frequently used very loosely and inaccurately; I am quite aware of that: but if used in a rational and proper sense, it either means that there is a greater demand for capital, a desire to carry on more enlarged operations, or it means that there is an absolute diminution of capital; it is the same thing in reality, namely, that the relation between the supply and demand of capital has been altered.

3762. Is that demand from persons who have no capital, or from persons who have capital?—It may be from either. [It may be a demand on the part of those who have no capital of their own and wish to borrow from others the capital with which they may be enabled to carry on business. Or it may be a demand on the part of those who having capital, find it insufficient for their purposes, and therefore wish to add to their own capital a further amount of capital borrowed from others.]

3763. But, generally speaking, persons who have no capital have very little opportunity of raising money, have they?—That is certainly not so. The whole principle of banking is to afford capital; to transfer it from the inactive accumulator of capital to the active and energetic person who wants the capital; the banker is the go-between who receives deposits on the one side, and on the other applies those deposits, entrusting them, in the form of capital, to the hands of active, energetic persons, who he thinks will make a good use of it.

3764. Who have no security to give?—Who have, in many instances, no security to give, except their character, and skill, and talents, of which the banker forms his judgment.

3765. Is that the ordinary practice of banking in this country?—Yes; it is the mode in which I have carried on banking to a great extent.

3766. To persons of character, who have no other security to give?—To persons of character, who in some cases have no security to give; but who, in all cases, have no security to give equal to the amount advanced to them, except that best form of security, their character, their energy, and their prudence.

3767. Your Lordship gave the rate of discount at various periods; could you add to that interesting information, by giving us the rate a little further back, namely from 1797?—I gave it from 1783.

3768. Your Lordship stated that there was a very high rate of discount in 1783, in 1793, and in 1797?—Yes.

3769. And in 1825, in 1836, and in 1839?—Yes.

3770. Your Lordship also gave the oscillations in the rate of interest, from 1821 downwards?—Yes.

3771. Could you carry those oscillations a little further back in the same way?—No: I have not got that return beyond 1821.

3772. You do not remember what oscillations took place between 1797 and 1821?—No; but I know that they were enormous.

3773. Could you furnish the Committee with them?—I doubt very much whether I could. The fact is perfectly notorious, that the rate of interest during the French war was very high indeed.

3774. The commercial rate?—Yes, the rate in all respects.

3775. The Bank rate was not?—The Bank rate was limited by law; the result of that was, that instead of money being employed in the discount of commercial bills, it was forced into employment in other ways, especially the employment of lending it upon stock to enable the speculators to carry over the great Government loans.

3776. Could you furnish the Committee with those rates, do you think?—No, I do not think I could. In the first place you could not get them quite specifically, because they were in a peculiar form; it is perfectly well known, that it was what was called “continuation,” that is to say, it was virtually lending money upon the security of stock, but it was lending money in the form of purchase and sale; there is no doubt at very high rates indeed; 7, 8, 9, 10, and 12 per cent., were continually obtained in that way.

3777. Between 1797 and 1816?—During the French war, and subsequently to the French war also; till the matter subsided in the course of a few years.

3778. When people complain of the Act of 1844, do you understand them as complaining that the Bank is compelled to act more in conformity with the Act of 1819 than it did before 1844?—I must leave those who complain of the Act of 1844 to explain for themselves the reason of their complaint.

3779. Is not it the object of the Act of 1844 to oblige the Bank in its business to conform more entirely to the state of the bullion in the coffers of the Bank?—The object of the Act of 1844 I have already stated in the early part of my examination in detail. The final object of it is to

establish such a regulation as shall effectually secure that the paper money of the country shall fluctuate in amount, in correspondence with the fluctuations in the bullion.

3780. And it does so more precisely than it did in the period antecedent to 1844?—Certainly.

3781. That may, perhaps, in some degree account for the greater number of changes in the rate of discount, if they have been greater?—That is compelling me to go over the explanation again. In the first place, I very much doubt the fact of the greater number of changes.

3782. I said, if they have been so?—If they have been so, I must again go into the analysis of them. The great changes are distinctly attributable to the increased demand for capital, and its increased productiveness. The great development of the trade of this country and of the trade of all the world, during the 13 years that the Act has been in force, is an abundant explanation of the immense increase in the demand for capital, and therefore of the high rate of interest. But with regard to the mere fluctuations which are connected directly with an alteration in the quantity of money, that they are very frequent is probably true, but they are small in extent, and the frequency of them, as I have said before, is the essential principle of their utility. It is their vital principle, that they should commence at the very moment when the drain upon the bullion begins; and that by commencing at that very moment, they should restrict the drain of bullion within moderate limits; the frequency of their occurrence is the vital principle of their utility.

3783. Then the Act of 1844, by obliging the Bank to conform more precisely to the amount of its metallic store, which is constantly varying in amount, will in some degree

account for the more frequent changes in the rate of discount?—When we come to the Act of 1844, I cannot admit anything about the Bank and its metallic store. After the Act of 1844 the Bank has no metallic store.

3784. What I mean by the metallic store is, the store in the Issue Department of this country. The fact of the Bank of England being obliged by the law of 1844 to conduct its business more in relation to the metallic store in the country, will in some degree account for the frequent changes in the rate of discount?—The effect of the Act of 1844 in that respect I understand to be this: that the moment any diminution in the money of the country takes place, in consequence of an adverse drain, then, under the Act of 1844, the money of the country being absolutely diminished, a rise in the rate of interest immediately takes place. Previously to the Act of 1844, the occurrence of that rise in the rate of interest was delayed in consequence of the Bank continuing to put out notes to take the place of the bullion which had gone abroad, the effect was a delay as to the period at which the rise of interest would take place; but in consequence of that delay, the rise in the rate of interest in the end was greater than is now necessary when it takes place at an earlier period.

3785. But as the rate of discount is only temporarily high, according to your Lordship, if the Bank is stimulated to appreciate more nicely the different changes in the value of money, and to raise its rate in proportion to the metallic store, that will tend to a more frequent change in the rate of discount, although under the previous system the rate might be higher?—I have already stated, that the object of the Act of 1844 being to make the paper money of the

country sustain a diminution, both in amount and in period, precisely the same as would be sustained by the metallic money of the country, of course an increase in the value of money arises the moment the money begins to undergo a decrease of amount. Therefore, under the provisions of the Act of 1844, the rise in the rate of interest, which indicates the increase in the value of the money of the country, from the diminution of its amount, will take place earlier. In consequence of its taking place earlier, it will check the drain sooner ; it will therefore permit the drain to go to a less extent, and, by so doing, it will limit the fluctuation in the rate of interest by making the occurrence of it earlier than it otherwise would be.

3786. But the oscillations will be more frequent. If every change in the state of the bullion reserve is appreciated and acted upon by the Bank, must not it necessarily lead to more frequent changes of the rate of discount ?—The changes in the rate of discount may probably be more frequent, but on that very account they will be less violent ; and I have already stated that I think that the frequency of the oscillations is really an essential principle in their utility ; and I have given an illustration which seems to me in point. It is like the rapid and multiplied oscillations of a tight-rope dancer ; if you allow him to go on for some time, instead of righting his position the moment it is disturbed, he will lose his balance and tumble over ; and it is precisely so with your monetary system. [To these frequent changes in the rate of interest caused by an immediate and strict accordance of the paper notes with the fluctuations of the bullion, may be applied the happy expression of Sir John Herschel, used with respect to a very different subject—“those ever-varying and never

over-stepping, those inherently-equipoised and self-bridled oscillations." Delay in contracting the paper-money, coterminously with the first symptoms of the efflux of the metallic money will certainly increase the severity of the action in a later stage.—“By whatever causes a drain for gold on the Bank may be occasioned, its continuance is a conclusive proof of the redundancy of the currency; and if, under such circumstances, the Directors delay contracting their issues, they may depend upon it they will greatly aggravate the mischief they are seeking to avert. Sooner or later, the propriety of making a reduction in the amount of their issues, will cease to be *optional* with them; and they will be compelled, in order to prevent the total exhaustion of their coffers, to take that step which they ought in all cases to take, the moment the drain begins to set in.”—Macculloch Art. “Money,” pp. 106-7.]

3787. You have stated that the paper of the country should be regulated in precise proportion to the metallic money?—Certainly.

3788.—Could the commercial operations of this country be carried on if there were no paper money at all?—They could be carried on with perfect ease in every respect, except the mechanical difficulty of carrying about a cumbrous and weighty instrument, instead of a light and convenient one.

3789. You think that there is quite sufficient metallic money in this country to carry on all its commercial operations without the assistance of paper money?—Perfectly; that is, a sufficient quantity of metallic money will immediately come into the country, if paper money be withdrawn. I cannot conceive how any person can entertain a doubt for a moment upon the subject. What is it with

which the commercial operations of the country are carried on? they are carried on with capital; the issuing of paper money does not alter the capital of the country. [If the amount of money in the country is not sufficient for carrying on its commercial operations, the sense of this insufficiency will cause bullion to be brought into the country. Money, in the form of bullion will be a more profitable form of import than any other commodity; and thus the money in the country will be increased by the only legitimate and effectual means. If bullion is not so brought in, that fact affords conclusive proof that the demand for more money in the country is not so strong as the demand for other forms of import—that is for other commodities. If, at a period when there is no legitimate increase of the money in the country through the means of imported bullion, an attempt be made to increase the amount of money by a further issue of paper notes, the inevitable effect must be to displace an equal amount of the metallic money. This is the very process by which the store of bullion has been exhausted on many occasions previous to 1844; and by putting a stop to the power of thus issuing paper notes, not founded upon a corresponding increase of bullion, the Act of 1844 has rendered the recurrence of that exhaustion of the bullion impossible.]

3790. Supposing that there is no metallic money at all, when we cease from a state of barter, is not some legal tender necessary for the interchange of commodities?—If you assume that you cease from a state of barter, of course there must be something to take its place; but a state of barter is the real state at any time; money is only the means of carrying on that barter.

3791. Our transactions with foreign countries are car-

ried on entirely by barter?—Yes; all transactions are at the bottom barter, and must be so; they cannot be anything else.

3792. There is the instrumentality of a medium of exchange in a domestic currency, which does not exist in our interchange with foreign countries?—The existence of money renders the transactions of barter far more convenient, but it does not essentially alter the thing at the bottom; commodities must be given for commodities; that must be the bottom of the subject.

3793. With respect to the three drains, from 1819 to 1844, you have stated that they involved three great alarms for the convertibility of the note. Can you give any proof of that, that the alarm at that time was for the convertibility of the note?—It is like asking me to give a proof that the sun rose this morning. It is universally known and recognised by everybody who lived in the commercial or monetary world during that period. It is perfectly notorious that in 1825 the bullion was drained out, and that if there had not been found some 700,000*l.* or 800,000*l.* worth of *l.* bank notes, the Bank must have avowed that they had no more sovereigns to give. Then again, as to 1837 and 1839, you have only to look at the returns among your own documents, and you will see the very low point to which the bullion was reduced. It is quite notorious that the public became very much alarmed upon the subject.

3794. The question did not relate to the amount of alarm, the question was as to the cause, and your Lordship has stated that in the midst of the panic of 1825, when it was known that there was a great drain of bullion, the Bank issued a number of *l.* notes. Were those *l.* notes dis-

credited in that state of things?—No. A drain of bullion had taken place through an adverse state of the foreign exchanges, and the omission to correct that by a proper management of the circulation. In the early part of 1825, the store of bullion which remained was reduced to a very low amount, to an amount improperly low in two senses: in the first place, it was so low that it created great alarm among the public with regard to the insufficiency of its amount to meet any further demand which might arise through the state of the foreign exchanges; and, secondly, it was so low that it was not sufficient to meet the wants and demands of internal purposes in the country, those wants and demands being created by a very extraordinary phenomenon at that period,—namely, the enormous increase which had previously taken place in the country issues, which were subsequently suddenly discredited, they being principally 1*l.* notes, and the Bank of England was called upon to find the means of paying those 1*l.* notes. The sovereigns were all exhausted, but there happened to remain this lot of 1*l.* notes of the Bank of England which took their place.

3795. Then, under the most adverse circumstances of a drain of bullion, when it was stated that the Bank was within 24 hours of a state of barter, these 1*l.* notes which came out of the Bank, so far from being discredited, staved off the panic?—They were not discredited in the slightest degree.

3796. I understood your Lordship to state that on those three occasions the convertibility of the note was suspected?—Yes; the bank note was not discredited for internal purposes, but it was very seriously discredited for external purposes. A person holding the Bank of

be discoverable in the Acts of 1844 and 1845, you are not disposed to suggest any material alteration in them? —No. I subscribe entirely to the opinions which are now before this Committee from the Bank Directors. I believe that the Act was founded upon sound principles. I believe that it has fully verified all the beneficial results anticipated from it, and I believe that the wise course would have been to have proceeded at once to renew the Act, without involving the country in the evils and the inconveniences of these discussions.

3705. Still the Act seems to contain within itself evidence that it was intended not to be a final measure, but to lead to some ulterior changes. One of the questions which we now have to consider is, whether it would be desirable to develop the policy of that Act, and to carry its provisions to a further point. Your opinion seems to be that at present it is not desirable to make any material change?—Of course that depends a good deal upon the measure submitted for that purpose. That there are further advances towards the true state dictated by principle, is certainly true, and if any body submits a measure of a practical character for the purpose of making a further advance, I shall be glad to exercise my best judgment upon it. I myself am not prepared to submit, or to suggest, any measure of that sort; I think that all the practical results which we have now before us would, as addressed to a sensible and practical people, lead them to the conclusion that it is better to go on as we are, and to be content with the enormous proportion of good which we have obtained; and I feel confident that that is an opinion strongly and universally growing throughout the intelligent portion of the community, and that nothing

could be adopted by the Government or the Legislature at this moment which would be less in harmony with the feelings of the people, than any proposal seriously to interfere with the provisions of the Act of 1844.

3706. Taking the last 10 years, from 1847 to the present time, do you believe that the currency of this country, both the Bank of England circulation and that of the country banks, and the Irish and Scotch banks, was ever in a sounder, or in as sound a state?—There cannot be a question about it; it is in a far more satisfactory state than it was at any time within my recollection, or of which I have ever read.

3707. Then if we are to address our legislation to the removal of practical evils, you do not discern any practical evils in the state of the currency which would justify an alteration in the law?—None whatever.

3708. Has not the currency of the country been subjected to very trying influences during the progress of the late war?—Undoubtedly to a very severe trial.

3709. The necessary effect of a foreign war is to lead to large exportations of bullion, is it not?—The occurrence of a foreign war necessarily leads to a very large foreign expenditure, namely, an expenditure on the part of this country to an immense amount in other places than in the country itself. That expenditure must be met by some means or other. Of course if it cannot be met by any other means, it must be met by the export of bullion; but the object and purpose of a sound and safe construction of the monetary system of the country is to take care that that expenditure shall be met by other means than by the total loss of its bullion.

3710. Inasmuch as a war gives rise to a large and

sudden demand, it may be in a barren and comparatively uncommercial country, is it not almost an inevitable consequence that a foreign war leads to an export of bullion? —It leads to an export of bullion in a particular direction; but the question I apprehend to be whether it leads to a large export of bullion upon the general balance.

3711. That is to say, to a greater export of bullion than would have taken place, if the loan had not occurred? —The question at the bottom of that is this, whether the foreign expenditure shall be met by the export of commodities to provide for it, or by parting with your bullion.

3712. That expenditure can only be met by the export of commodities, in the event of a sudden increase of trade to the extent of the sudden increase of expenditure caused by the war?—It may be met in a variety of ways. In the very complicated relations which now exist between the civilized countries of the world, it may be met by an increased export of commodities; it may be met by a decreased import of foreign commodities for our home consumption; it may be met by various actions upon the credits that exist throughout the world; or it may be met by the export of securities. So complicated are our relations now throughout a vast variety of places, that the payment of a sudden debt, as I may call it, contracted in a particular place, may be adjusted by other means than by the absolute export of bullion.

3713. In point of fact, during the late war a considerable export of bullion did take place to the Black Sea, for our payments, and the Turkish Loan was also remitted in bullion?—Yes.

3714. Therefore, that export of bullion necessarily deranged the exchanges, and affected our currency at

home?—It necessarily affected the exchanges; and then other circumstances must be brought into play to rectify those exchanges; so that, upon the whole, we may not part with bullion upon the balance.

3715. The return to a natural state of things, the adjustment which has taken place since the peace, has been another cause which has had a material influence upon the state of our currency?—Yes: it necessarily acts with considerable power over the various circumstances which affect the currency.

3716. Therefore, the experience of the last 10 years with respect to the operation of the Act of 1844, has been more important and more trying than the experience of ten years of peace, without any revulsions of trade?—I think that, from the period of the passing of the Act in 1844, down to the present time, the Act has been subjected to a very complete and a very thorough trial; and I think that the Act has met that trial by realising every expectation which was entertained with regard to it. It has protected your bullion reserve from any diminution in amount, such as to create the slightest apprehension or alarm with regard to your specie payments, and it has at the same time admitted of a development of prosperity in the country which I need not characterise.

3717. Therefore if the operation of the Act is tried, not by general arguments, but by the test of experience, you think that there is no ground for any material alteration in its provisions?—I do; and there is no doubt that it is that test of experience which is operating upon the public mind, and bringing new converts and new supporters to the Act, year by year, and day by day.

3718. The main practical objection to the operation of

the Act at present, is in respect of the variations in the rate of discount, and the high rate of discount, which the public are inclined to attribute to the operation of the Act. You have already expressed your opinion, first, that a high rate of discount is not necessarily an evil; and next, that it is not to be attributed to the operation of the Act?—I have. I can only restate my opinion, that the frequent minute variations in the rate of interest which arise from an alteration in the quantity of money are exceedingly useful. The more frequent they are, the more minute they will be, and the more effectually they will accomplish their object. With regard to a great rise in the rate of discount, that is a circumstance entirely arising from the increased value of capital, and the cause of that increased value of capital I think any person may discover with perfect clearness. I have already alluded to the fact that during the 13 years this Act has been in operation, the trade of this country has increased from 45,000,000*l.* to 120,000,000*l.* Let any person reflect upon all the events which are involved in that short statement; let him consider the enormous demand upon capital for the purpose of carrying on such a gigantic increase of trade, and let him consider at the same time that the natural source from which that great demand should be supplied, namely, the annual savings of this country, has for the last three or four years been consumed in the unprofitable expenditure of war. I confess that my surprise is, that the rate of interest is not much higher than it is; or, in other words, my surprise is, that the pressure for capital to carry on these gigantic operations, is not far more stringent than you have yet found it to be.

3719. You have pointed out to the Committee, that

the Bank Directors may be said to be almost unanimous in favour of not interfering with the provisions of the Act. What, according to your belief, is the prevailing opinion among commercial men on the subject: are you aware of any general wish among commercial persons for any alteration of the Act?—Of course I am not so well prepared to answer that question now, as I should have been some years ago, when I was more immediately mixed up with the commercial world; but I keep up a very active intercourse with my former commercial friends, and certainly I have been struck, and very powerfully struck, with the unequivocal evidences of the daily-growing feeling in favour of this Act. Many of my own friends, who in the year 1847 would hardly speak to me, because they considered me in some way or other connected with this Act, have come to me within the last two years to say that they are perfectly convinced that they were wrong, for they see now that the measure is doing great service to the country, and that statement has come from men in a very high station in the city.

3720. Whatever feeling against the Act exists among commercial men, is owing to the belief that it in some way limits the supplies of what is popularly called cheap money, is it not?—I suppose so; I really cannot pretend to say. [Some remarks were made by Mr. Haldimand, in his evidence before the Committee, 1819, (pp. 67-8) which deserve attention. “When people feel distressed they will always say that they want money; at the same time if you doubled every man’s money, they would all remain relatively in the same situation, and equally distressed.” Is not the nature of the distress to which you have alluded, that which is generally talked of

in the city as a scarcity of money? It is undoubtedly in the city talked of as a scarcity of money, but people in the city mean by that, that they have not as much money as they would wish, compared to what other classes possess; and that, therefore, they cannot hold their goods, so as to command the prices which they desire to obtain." Adam Smith observes, that "no complaint is more common than that of a scarcity of money. Money, like wine, must always be scarce with those who have neither wherewithal to buy it, nor credit to borrow it. Those who have either, will seldom be in want of the money or of the wine, which they have occasion for. This complaint, however, of the scarcity of money, is not always confined to improvident spendthrifts; it is sometimes general through a whole mercantile town and the country in its neighbourhood; *over trading* is the common cause of it. Sober men, whose projects have been disproportionate to their capitals, are as likely to have neither the wherewithal to buy money, nor credit to borrow it, as prodigals, whose expenses have been disproportionate to their revenue. Before their projects can be brought to bear, their stock is gone, and their credit with it. They run about everywhere to borrow money, and everybody tells them that they have none to lend."]

3721. That, in other words, is a complaint, that the rate of discount is higher than is convenient to those who wish to borrow?—I believe it is altogether founded upon that very common fallacy, that money and capital are the same thing. They think that whenever they want capital, if there can be only a further issue of notes, notes are capital, and that anything which puts those notes under a system of regulation, is really producing some regulation

by which they are to have a less command of capital than they had before. I believe that to be the fallacy at the bottom of it all, and that there is a class of mind out of which that fallacy cannot be forced by reason, but out of which it may be forced by experience; and I believe that the last three years have cleared away an enormous quantity of that error.

3722. Where a trade is essentially sound, and is only to a small extent carried on by means of borrowing, a merchant's profits are not seriously diminished by occasional loans, even at a high rate of interest, are they?—That idea of the profits of trade being destroyed by a rise in the rate of interest is most erroneous. In the first place, a rise in the rate of interest is seldom of any long duration; in the second place, if it is of long duration, and of great extent, it is really the consequence of a rise in the value or productiveness of capital; which is in other words a rise in the rate of profit.

3723. The rate of interest has been high in this country during the last two years, has it not?—Yes.

3724. But yet we see from the returns of the Board of Trade, that the trade of the country proceeds without any diminution, notwithstanding the unfavourable influence of the war?—The rise in the rate of interest has been in consequence of the great increase in the trade of the country, and the great rise in the rate of profits; and to complain of the rise in the rate of interest as being destructive of the two things which have been its own cause, is a sort of logical absurdity which one does not know how to deal with.

3725. In the United States, where trade and industry are so flourishing, the rate of interest is very much higher

than it is in this country, is it not?—Yes; in the United States there are two causes for that. It is comparatively a young country with a less accumulated capital, and with a very extended field for the employment of capital. The consequence is, that you have both the phenomena which exist in this country more strongly developed there, namely a generally high rate of interest, and a greater amount of fluctuation in the rate of interest.

3726. The recent fluctuations in the rate of discount in England have been accompanied by corresponding fluctuations on the continent?—Yes; the fluctuations in the rate of interest at Hamburgh and at New York have been greater than the fluctuations in the rate of interest in England, and I believe you will generally find that the fluctuations in the rate of interest are to a great extent coincident with the rapidity with which wealth is created and prosperity developed.

3727. Confining ourselves to Europe, have not the recent fluctuations in the rate of interest in London been common to Paris, Amsterdam, Hamburgh, and other seats of commerce on the continent?—The recent rise in the rate of interest in this country is a phenomenon arising from one great cause, to which we have already alluded, namely, the vast and rapid development of the trading operations of the world, accompanied by the destruction of savings which has taken place during the last war. That is a cause operating over the whole of Europe, and you find the effect equally universal.

3728. Mr. *Cayley*.] You have stated that the rate of discount is of no material moment you think to the merchant; will you be kind enough to state what you consider the ordinary rate of profit to the merchant?—It is quite impossible to state what the ordinary rate of profit

is ; it is a matter varying in different trades, varying in different countries, varying at different times.

3729. Supposing the average rate of profit to be, say, from 7 to 10 per cent., a variation of from 2 to 7 or 8 per cent. in the rate of discount must materially affect the rate of profit, must it not?—In the first place parties will not pay a rate of discount which seriously interrupts their profits ; they will discontinue their business rather than do that. What is the meaning of discount ? Why does a person discount a bill ? He discounts a bill because he wants to obtain not money, for its own sake ; it is useless in itself ; he discounts a bill because he wants to obtain the command of a greater quantity of capital : and why does he want to obtain the command of a greater quantity of capital ? because he wants to employ that capital ; and why does he want to employ that capital ? because it is profitable to him to do so ; it would not be profitable to him to do so if the rate of discount destroyed his profit.

3730. Merchants being engaged in business, must they not for a certain period carry on their operations in despite of any temporary increase in the rate of discount ? —There is no doubt that in any particular transaction, if a person can get his command of capital at a low rate of interest rather than at a high rate of interest, taken in that limited view of the matter, that is convenient to him ; but I do not see that any important consequence arises from that. If the rate of discount becomes inconveniently high, it can only be because the persons who seek to borrow capital through the means of discount do so, because they find that they can employ that capital even obtained upon those terms in a manner which is advantageous to themselves.

3731. I observe that your Lordship said that the

higher rate of discount for the last two years was owing to the increase of trade, and to the general prosperity of the country; is that your view?—Yes; what I stated was this, that during the last few years there has been an immense development of the trading operations of the country, and of the world, and that that great development of the trading operations of the world has created a very great demand for capital, and that the very great demand for capital necessarily creates a higher price for the command of that capital, and that therefore the high rate of interest is the result of the great extent of trading operations.

3732. With reference to the Act of 1844, can you state what has been about the average rate of interest in proportion to the amount of bullion in the Bank; would it be a fact that when the amount of bullion has been about 9,000,000*l.* or 10,000,000*l.* the rate of interest has been 6 or 7 per cent., and that when it has been 16,000,000*l.*, the rate of interest has been, say from 3 to 4 per cent.?—I do not apprehend that that is so; I have no idea that that would appear to be the result of the examination of the statistics; but if it is, then I think we must take still more stringent measures than those adopted by the Act of 1844, because if it be true that the greater the store of bullion, the lower the rate of interest, we ought to set to work, according to that view of the matter, to increase the store of bullion to an indefinite amount, and then we should get the interest down to nothing.

3733. If that be so, supposing that 5,000,000*l.* of bullion was to be restored to the Bank, in the course of the next six months the bullion then would amount, say

to 16,000,000*l.*, and supposing that the rate of interest was thus to fall to 3 or 4 per cent., how could it be stated that that fall in the rate of interest arose from a great decrease of the trade of the country?—I must have a great many other facts added to that supposition; when we are supposing a great many phenomena, we must beg the person making the supposition to explain all the causes of the phenomena which he so supposes to have occurred, because until we know the causes of the phenomena, we cannot pretend to draw any useful or instructive conclusions from them. I said that the recent rise in the rate of interest, not that the fall in the rate of interest, was closely connected with the great increase in the trade of the country.

3734. In the ordinary state of things, if the Bank was to fortify its store at the rate of 300,000*l.* or 400,000*l.* per week, and in the course of six months that was to amount to 5,000,000*l.*, making in the whole from its present amount 16,000,000*l.*, judging from previous experience, the rate of interest probably would fall to at least 4 per cent.; would that fall in the rate of interest be then necessarily consistent with a decline in the prosperity of trade?—We must understand clearly whether we are speaking of a fall in the rate of interest of a very temporary character, or of one which has some duration in it. A low rate of interest prevailing for any continued length of time, I apprehend, is a pretty clear indication of a low rate of profit.

3735. But if the rate of interest was to fall in consequence of the accession of 5,000,000*l.* of bullion, in the course of the next six months would that be accompanied in your Lordship's estimation, by an increase or a decrease

in the prosperity of trade?—I do not apprehend that they are intimately connected with each other in the relation of cause and effect. If the bullion in this country increases, that increase of the bullion must proceed from some cause. Before I go further, I must beg to have the cause of that increase explained. I can only revert to the general principles that the rate of discount is the price paid for the command of capital, and that when the profits of trade are high, it stands to obvious reason that persons will be willing to pay a high rate to obtain the capital which is necessary to carry on that trade; that when profits are low, they will not pay that high rate; they will allow the capital to go away rather than pay that rate, and they will only pay a lower rate; again, whenever profits are high, and there is a demand for capital, because great profit is to be made of it, persons pay for the use of that capital a price proportionate to the profit which they can get in the employment of that capital.

3736. I observed your Lordship to say, that money was the instrument for obtaining capital. Under a drain of bullion, is not the great strain, on the contrary, for capitalists to obtain money?—No, it is not the capitalists; it is those who are not capitalists who want to obtain money; and why do they want to obtain money? not to keep it in their pockets, but they want to obtain money, because through the money they obtain the command of the capital of the capitalist to carry on the business of the persons who are not capitalists.

3738. Are not the parties who draw bills of exchange capitalists?—The parties who draw bills of exchange may be, or may not be, capitalists.

3738. As a general rule, is it not the custom of the merchants of this country to carry on their business by means of bills of exchange?—No doubt about it.

3739. Are not bills of exchange the representatives of the goods manufactured or dealt in?—I hardly know the meaning of that expression. Bills are drawn very often in consequence of sales of goods made, very often in consequence of credits granted; they are sometimes drawn as arising out of Exchange transactions, sometimes out of dealings in commodities.

3740. Are they not as much the representatives of the stock of the merchant or the manufacturer, as the bank paper which you stated was the mere representative of gold, or the shadow of gold?—No, I do not think they are. The bank paper is the representative of gold, because it is the certificate of gold placed in deposit against it; but a bill drawn is by no means the certificate of goods in that sense of the word.

3741. The merchant draws a bill on the faith of goods which he is either making or has sent abroad?—Take any particular transaction, there is no doubt about what the fact is: a person ships goods abroad, and draws a bill upon the person abroad to whom he ships those goods, or he draws a bill upon the merchant at the port through whom he ships them; that bill, no doubt, has a commercial relation to the commodities so shipped; but it has not a relation similar in its nature, nor in its effects, to that which the bank note has to the bullion deposited.

3742. Is not his object to get money?—No; getting money is not the object in drawing the bill; getting money is the object in discounting the bill.

3743. What is the great desire of the mercantile community, under a pressure or panic such as you state to have occurred in 1825, 1837, and 1839 ; is their object to get possession of capital or the legal tender ?—Their object is to get the command of capital to support their business.

3744. Will you be good enough to describe what you actually mean by the term “capital” ?—I am afraid that that is going into a question which is a little beyond such a body as this fully to enter into. If you want me to define capital, I shall beg leave to decline entering into scientific definitions. If you wish me merely to give a general indication of what I understand by “capital,” I am quite ready to do it. Capital consists of various commodities, by means of which trade is carried on ; there is fixed capital, and there is circulating capital. Your ships, your docks, your wharves, your roads, your bridges, your mills, warehouses, machinery, &c., are fixed capital ; your provisions, your clothes, and things which are necessary to sustain week by week, the labourer, all raw materials, cotton, wool, silk, iron, &c., are circulating capital.

3745. Is the country oppressed under a drain of bullion ?—Not in any rational sense of the word. I must again resort to the elementary view of the subject. In the natural state of things, the money of the world is distributed amongst the different countries of the world in certain proportions, those proportions being such that under that distribution the intercourse between any one country and all the other countries of the world jointly will be an intercourse of barter ; but disturbing circumstances will arise to affect that distribution, and when

those arise a certain portion of the money of any given country passes to other countries. During that process of passing, there is some little inconvenience and pressure, but it is an inconvenience and pressure which is necessary for the rectification of things, and is therefore wholesome, and is, in fact, unavoidable. That pressure, under a proper regulation of things, will be but slight; of course more or less slight, according to the nature of the cause which acts upon it, and whatever the cause may be, that cause must be corrected, and the more early you resort to the measures of correction, the less will be the pressure and the inconvenience.

3746. Your Lordship now uses the term "money." I understood you before to say that it was a loss of capital?—That what was a loss of capital?

3747. The export of bullion?—No, I did not say so. If you treat bullion as capital, no doubt it is a loss of capital; it is parting with a certain proportion of those precious metals which constitute the money of the world.

3748. I understood your Lordship to say that an alteration in the rate of discount was a mere sign of an alteration in the value of capital?—I did.

3749. And that the rate of discount generally alters with the state of the store of bullion in the Bank of England?—Yes; but I have already stated that the fluctuations in the rate of interest which arise from an alteration in the quantity of money in a country, are small, both as regards their extent and their duration, and that all really important alterations, in reference either to extent or duration, in the rate of interest are distinctly and directly connected with some alteration in the demand for or in the productiveness of capital. [The productive-

England note as a means of obtaining bullion to remit abroad, felt exceedingly anxious as to its command of bullion, but a person holding 100,000 l. notes for the purpose of internal payment of wages in the country felt no difficulty at all; he said, "They will answer my purpose in that respect."

3797. There is no fear of the convertibility of the note, so far as the domestic exchanges are concerned, provided they are limited in quantity?—There is no fear of the convertibility of the note with regard to the external or domestic exchanges, if they are properly limited in quantity.

3798. Do you trace any connection during the last 10 years between the amount of circulation by the public and prices?—No, I should think probably not much. Prices of what?

3799. Prices generally?—If you mean by that to raise the question, what is the effect of the quantity of money in the country upon prices, it is no doubt raising a question of some difficulty. I apprehend that the prices of commodities is the last thing which is reached by fluctuations in the amount of money, and it is perhaps very seldom reached, because the other effects produced by fluctuations in the amount of money will correct those fluctuations before you are compelled to resort to the final principle of effect upon prices, always meaning the prices of commodities; the prices of securities are quite a separate question.

3800. What is the object of raising the rate of discount in relation to the correction of the foreign exchanges?—A great deal of fallacy lies in that term "raising the rate of discount." You talk of the Bank

raising the rate of discount, that is the technical mode of expressing it, but it is not the correct one. The Bank does not raise the rate of discount; it is much more correct to say that the rate of discount is raised upon the Bank. The fact is, that the diminution in the quantity of money in the country raises the value of the money that remains, and the Bank is obliged to conform to that rise in the value of money. The Bank has no power *per se* of raising the rate of discount.

3801. That diminution of the money in the country being instanced in the Bank's own store of bullion?—No doubt; but again I must say, that the Bank of England has no store of bullion under the Act of 1844.

3802. The store of bullion which we see in the issue department?—Yes; when the money of the country is diminished by a foreign drain, that diminution is indicated by notes paid into the issue department, and cancelled, and bullion taken out against those notes and exported.

3803. Then the rate of interest does depend upon the store of bullion?—I am very sorry to trouble the Committee with the constant repetition of the same explanation.

3804. I understood your Lordship rather to deny that proposition before?—No; the proposition which I have laid down is this, that small fluctuations of frequent occurrence probably do arise from variations in the amount of money; but that great fluctuations, great in amount, or great in duration, are almost entirely connected with alterations in the relative demand and supply or in the productiveness of capital.

3805. Does the Bank ever proceed to raise its rate of

discount except under an apprehension of a decrease of the store of bullion in the issue department?—The Bank of England can only raise its rate of discount from two causes, one from an actual alteration in the value of capital, and the other from an alteration in the amount of money. When the money in the country is diminished by a drain, its value increases, and the Bank of England must conform to that alteration in the value of money which it does by raising the rate of interest.

3806. What is the effect of a rise in the rate of discount upon the prices of securities and of goods?—It is very direct and very simple. When the money of the country is diminished, the remaining quantity becomes more valuable; the rate of interest rises; that rise in the rate of interest acts upon public feeling; the public become more cautious, credit and confidence are more or less affected, the remaining money performs its functions more slowly, and in that way the value of money in the country is increased, and increased to whatever extent may be necessary to check the farther export of it, and to bring back again that which has gone.

3807. How does it do so?—It does so in this way. The value of money is increased; the price of interest-bearing securities is affected; it falls more or less. Then the foreign merchants in the country begin to perceive its effect; they write to their correspondents abroad, “Money is becoming more valuable with us here; do not send us other things, send us money; that is the best form of remittance to us now.” That money is sent, and that is the very way in which a small rise in the value of money here produces its natural and legitimate correction. The diminished amount of money is by that process cor-

rected, the money is brought back, and everything is put straight.

3808. If that were not so, there would be no object in raising the rate of discount?—I object to the term “raising” the rate of discount. The value of money rises by natural circumstances. The Bank of England have no more power of raising the rate of discount than you or I have; they must conform. As long as they had an unlimited power of issue, they might delay that operation by improperly increasing their issues. The moment they are put under legitimate and wholesome regulations on that point, their power over the rate of interest is gone; they must conform to it.

3809. The expected effect of raising the amount of discount is to lower the prices of securities and of goods?—It is a recognition that money has become more valuable in this country, and in proportion as money has become more valuable, the further export of it will be arrested, and there will be various means taken to get money remitted from abroad, in preference to other things, until that disturbed relation of the value of money in this and other countries is rectified.

3810. The natural effect of money being more stringent is to lower the price of goods?—Yes, that is the principle at the bottom. [Upon the subject to which the preceding questions refer, namely, the effect of fluctuations in the amount of money upon the rate of interest and upon the prices of interest bearing securities and of commodities, it may be useful and instructive to refer to the opinion of Mr. Tooke, as given in a note to his Pamphlet, 1826, p. 23:—“During the progress of an increase of the currency there is a fictitious increase of *monied capital* which

comes in competition with the pre-existing monied capital; and it is while in this state of increase that it both reduces the rate of interest, and diminishes the value of money. The additional currency, in whatever way it comes into circulation, and whether it is in the form of gold or paper, or mere credit, must eventually raise the price of commodities and labour. But as almost every increase of paper, excepting what is paid by the Bank for bullion, is issued in the way of loan, either to Government or to individuals, it is likely to affect the rate of interest in the first instance before it comes in contact with commodities. This may account for an observation which I have heard made, and which appears to me to have some foundation, and that is, that the effects of an increased circulation are perceivable in an advance of the funds and other securities bearing interest, before they can be traced in the prices of commodities; and the converse holds with regard to a diminution of the currency while in progress. When the amount of the currency has become settled for any length of time, at a particular level, it is immaterial as relates to the rate of interest, whether the level of the currency be at one-half or at double of its former value; the rate of interest will then be governed entirely by the supply of, and the demand for, capital, as resulting from circumstances independent of the currency. But it cannot be too constantly borne in mind, that every alteration in the amount of currency produces a *temporary* effect upon the rate of interest.”]

3811. The present principle of currency is built upon that assumption, I presume?—I am hardly prepared to say yes or no to that question. The present system of currency is built upon a very plain and simple principle,

namely, that a certain portion of the precious metals is the proper money of this country, and that paper notes are merely a mechanical contrivance used for convenience in lieu of that metal. There is an end of the matter; all the rest are consequences, not causes. [The monetary system of this country as regulated by the Acts of 1819 and 1844, is based upon the principle of leaving the distribution of the precious metals amongst the different countries of the world to be determined by natural causes. Under such distribution the amount of the precious metals allotted to each country—that is the amount of money in each country, will be such that the transactions of commerce between country and country will maintain the character of barter. Money will pass from one country to another only under peculiar circumstances, during short periods, and to a comparatively limited amount. When money does so pass from country to country, the decrease in the amount of remaining money in the country from which it passes will cause a rise in the value of money in that country, whilst the increase in the amount of money, in the country to which it goes, will cause a fall in the value of money in that country; and thus the transmission of money will be speedily and effectually checked, and the transactions of commerce be restored to their natural state of barter. But it is essential that this progression and wholesome action of natural causes should not be disturbed or checked by any artificial issues of paper notes, by which the amount of money in any given country may be rendered different from what would have been the amount of metallic money in that country.]

3812. Supposing that notes were issued by the

Exchequer to the extent of 14,000,000*l.*, and that 14,000,000*l.* was the base of the credit issues instead of 14,000,000*l.* of Bank of England notes, do you conceive that the system which you advocate would act either better or worse if, under those circumstances, the debt to the Bank was paid off, and the Bank had its entire capital free?—I do not think that it is a matter of the slightest importance, the Bank having what is called its entire capital free. It has quite as much capital free as it wishes to have, or could use properly.

3813. Is it the usual method of a banker conducting his business to have his capital locked up?—Not to have his capital improperly locked up, but I apprehend that the Bank has a superabundant capital at its command for the proper discharge of all its banking functions.

3814. In my former question I meant 14,000,000*l.* of inconvertible Exchequer notes?—I protest against any inconvertible notes.

3815. Is it your Lordship's opinion that oscillations in the rate of discount are an advantage or a disadvantage to commerce?—I do not think they are of any consequence one way or the other. [There are always two parties to a loan; and if the borrowers lose by a rise in the rate of interest the lenders must gain, and conversely.]

3816. They are oscillations in point of fact, in the value of the legal tender?—They are, as I have said before, mainly oscillations in the value of capital. In their smaller character they are oscillations in the value of the money of the country.

3817. When you pay 7 per cent. for money, you pay 7 per cent. for the legal tender?—Yes. Money and the legal tender, I suppose, are to be considered synonymou

terms. You pay it for that, but you pay it for that only as an instrument to an end, just as you carry an umbrella over your head, not for the pleasure of carrying it, but to keep the rain off; so you get your money, not for the sake of carrying it in your pocket, but for the sake of commanding the possession of capital.

3818. The rate of discount has reference to the price at which the legal tender can be obtained?—I think you had better keep to the word “money.” I do not know what may be meant by “legal tender.”

3819. Will your Lordship be kind enough to define what you mean by “money,” because at times I observe you use the word “money” in relation to our foreign transactions, and at times you use the word “capital”?—I never confound those two. I shall be very glad to refer to any answer in which I have confounded them, in order that I may correct it, but I do not believe that I have done so. Money I apprehend to be this: it is necessary for carrying on the relations of civilised communities, that there should be some one universal equivalent which is taken as such by all countries, and the precious metals are taken and adopted in that character. Then the various conditions of different countries assign a certain portion of the precious metals of the world to each country, and the portion so assigned to each country for the purpose of acting as the universal equivalent, is the money of that country.

3820. I was induced to ask the question, whether you considered the oscillations in the value of money to be a good thing or a bad thing for commerce for this reason. If 14,000,000*l.* of Exchequer notes would lead to less variation in the rate of discount, what would be your

opinion respecting them?—They would not create any difference in that respect. I understand the 14,000,000*l.* to mean 14,000,000*l.* of notes not payable in specie on demand. [Oscillations in the value of money, as distinguished from fluctuations in the rate of interest caused by some change in the value of capital, can never be injurious to commerce. Such oscillations in the value of money, are the natural and legitimate means by which the due distribution of the precious metals amongst the nations of the world is maintained and the true character of commerce as an intercourse of barter is preserved. The temporary fluctuations in the value of money, by means of which the intercourse of nations in their commercial relations is thus prevented from deviating to any serious extent from its normal and healthy state, must be favourable, and not antagonistic, to the true interests of commerce.]

The issue of any amount of notes, not convertible on demand, would not restrict the variations in the rate of discount. The temporary decrease of the amount of money in the country which causes these variations in the rate of discount, will still fall upon the convertible notes. The effect would be the same variations in the rate of discount, because there would still be the same decrease in the amount of money in the country. But we should have two sets of notes, the convertible and the inconvertible notes, circulating at different values, one class of notes being at a discount as compared with the other class. It is obvious that great inconvenience and confusion would be the consequence.]

3821. Yes; I wish to know what would be their effect? —If I understand the question, it is this: how would things work under a system in which you had 14,000,000*l.*

of notes not payable in specie on demand, and a further amount of notes equal to the amount of bullion, whatever it might be, which were payable on demand.

3822. The Exchequer notes would be payable in taxes, and would constitute a legal tender?—As a mere practical question, let us try to trace it out, and to see how it would work. How would those two different sorts of notes, different in their character, different in the privileges attached to them, circulate at par value with each other. It is quite clear that there would be a discount upon these notes in the first place; they would not answer the purpose of a circulating medium; it would throw everything into confusion in the very first stage of the process; that would be the first difficulty. The next difficulty would be this: the moment a drain of bullion takes place, of course it must take place by the paying in, and the cancellation of all the ordinary notes payable on demand. So far as that is concerned, it would be exactly the same as now. You would have two sorts of notes circulating in the community different in their character, and therefore there would be some premium between one and the other. It would create a state of confusion which would be exceedingly inconvenient, and which I am quite sure would not be tolerated by the community for three months.

3823. I understood your Lordship to say that there was no difficulty in the Bank note circulating in the country irrespectively of its convertibility; that it had done so in 1825, at a time when its convertibility was virtually endangered?—No doubt. It is quite true that the privilege of convertibility will not be called into action in every case: but when once you put forth into

the community two sets of notes, one carrying with them convertibility, and the other not carrying with them convertibility, depend upon it those two notes will not circulate indiscriminately with the public; the public are very shrewd, and will very soon draw a distinction between the two.

3824. Suppose that there was a limit in the quantity? —Even if there was a limit in the quantity it would not alter the matter, because there would be no limit in the aggregate quantity of the two together.

3825. Supposing, the average of the circulation having been, say from 22,000,000*l.* to 25,000,000*l.* the last few years, upon that there was a limit to the power of the Bank to issue bullion, do you still think that those notes would be inexpedient?—They would generate a state of utter confusion which could not be tolerated for three months.

3826. Do you remember what has been the average active circulation of the Bank of England for the last three or four years, from 1853?—They have issued upon securities 14,000,000*l.* I suppose the amount of bullion may be put down at about 10,000,000*l.* or 12,000,000*l.*

3827. That would be their power to issue?—No; that is their actual issue.

3828. What is the active circulation?—That is the active circulation.

3829. There is so much in reserve?—Where?

3830. In the Bank?—So there is in a great number of other banks. I cannot speak of the reserves. That is the quantity of notes put out for performing the active business of the community.

3831. When there is 20,000,000*l.* of gold making

34,000,000*l.* of circulation, does your Lordship mean to say that the reserve then of the Bank is what the Bank actually requires as reserve?—Yes; under the circumstances of the case, it is what is required as a reserve. I mean to say that every note put out against bullion in the Bullion Department, is in reality in all principle a metallic circulation. The bullion would not be placed in the Bullion Department, except for the purpose of money; it is only represented outside the Issue Department in the form of notes for mechanical convenience; it is to all intents and purposes, when you are inquiring about principles, a metallic money.

3832. Still, supposing the active circulation is 22,000,000*l.*, that is, a circulation in the hands of the public, and not in the Bank of England?—You mean the inactive circulation. The notes in the Bank of England are far more active in meeting the necessities of the public and the requirements of trade, than those which are anywhere else; it is the most active part of the circulation.

3833. Will you describe how?—I will give you a practical illustration: suppose that this Committee was to-day to issue an order for destroying all the notes now lying in the Bank reserve, and that that order was made known in the city of London to-morrow morning, what would be the result; what would the bankers do? They would every one of them go into the city in a state of perfect panic, and would say, “God bless me, I have lost my balance at the Bank of England; it is all gone; it is destroyed by an order of a Committee of the House of Commons.” What would they do? they would every one of them send their Exchequer bills to their

brokers: they would say, "Take my Exchequer bills; sell them; take my stock; sell it; bring me bank notes; I do not know what is going to happen; but the Bank reserve is destroyed; I must have Bank notes immediately to put me in a proper and safe position."

In the meantime their customers would get wind of what was happening, and the next thing would be that they would come to the Bank and say, "I want my bills discounted;" they would be met with the reply, "Excuse me; have you not heard what has happened, that the reserve at the Bank of England is all gone, and the reserve of every other bank in London? We cannot discount bills; our bills which we hold must be paid; we must collect Bank notes as fast as we can." What would the Bank of England do? They would do the same thing; they would say, "You must sell our securities." What would be the state of the security market? Prices would go down immediately, everybody would be alarmed. What would then take place? The next day you would have the foreign post. What would the foreign merchant do? He would write to his correspondents abroad immediately, and say, "We are in a dreadful state here; the Bank reserve is destroyed; you must send us money; do not send us commodities; do not send us bills of exchange; do not send us securities; you must send us money." The consequence would be, that money would come; the exchanges would be turned, and money would be brought into the country. In that way this Bank reserve, this inactive thing would operate, and the money would be brought into the country. That is an instance of the effect of the destruction of the Bank reserve. Now, what

is the effect of a very large increase of the Bank reserve? You have a practical illustration of it of the most striking kind. Look to the Government letter of 1847. What was the Government letter of 1847? It was virtually an indefinite increase of the Bank reserve. What was the effect? Not one note was put out into what is called its active state. Not one additional note passed out of the Bank in consequence of it, but the Bank reserve was indefinitely augmented. What was the result? A miracle was instantaneously worked. The want of confidence was removed, and everything was made smooth and easy. The whole machinery of the credit system of the country, which had been brought to a dead lock, was immediately put in order, and everything went on with perfect ease, solely from the increase of the Bank reserve. Therefore, to hold the doctrine that the Bank reserve is an inactive portion of the circulation is absurd. For all the purposes, and for the conduct of all the business of the country, the reserve of the Bank of England, and the reserve of all subordinate bankers, is a most important and efficient power.

3834. The panic of 1847 we have understood you to say was commenced by a loss of capital?—No, not the panic of 1847; the great pressure in 1847 arose from a great increase in the demand for capital caused by a variety of circumstances; caused to a great extent by the extensive transference which had taken place of floating capital into fixed capital in the form of railways; caused also by the great destruction of the crops which had taken place, and the very large sum which had to be paid, which was in point of fact capital, for the supply of the necessary provisions of the country. In that way the

very great pressure for capital was created in 1847; the panic in the last stage arose from other and peculiar circumstances.

3835. Then the pressure of 1847 was caused by a paucity of capital in relation to the demand for it?—Certainly.

3836. The Government letter then increased the capital, did it?—No; the rate of interest did not fall in the rapid manner in which the other changes that I have spoken of took place; the Government letter was the medium of medicating to the state of things; it was the medium of relieving that state of panic which had really brought everything to a stand still; and what was the cause of that state of panic? the impression that the Bank reserve was actually exhausted; and what was it that restored things to their order in that respect? it was the simple letter of the Government, the effect of which was to give an indefinite augmentation to the Bank reserve; therefore it shows the extraordinary efficiency of the Bank reserve with regard to the operations of the country.

3837. That increase of reserve was to be purely bank paper?—It was bank paper to be issued only under the strict limitation that not a note was to go out under 8 per cent.; had it not been for that limitation, the measure would have been pregnant with great danger.

3838. In fact the public look at the reserve of the Bank of England more than at any other part of the return?—They do now, certainly.

3839. They are very much comforted by the increase of the reserve, and they are very much disquieted by the decrease of the reserve?—Yes; because that increase or

decrease of the reserve of the Bank of England is taken by them as indicating an increase or a decrease in the quantity of money in the country.

3840. Are not they also imagining that the rate of discount depends very much upon the state of the reserve?—The immediate effect upon the rate of discount, but not any permanent effect.

3841. Do not the changes in the rate of discount by the Bank invariably follow more or less the state of the reserve?—The variations in the rate of discount have no doubt a very close relation to the state of reserve, because the state of the reserve is the indicator of the increase or the decrease of the quantity of money in the country; and in proportion as the money in the country increases or decreases, the value of that money will increase or decrease, and the bank rate of discount will conform to that change.

3842. And the state of the reserve follows more or less the state of the bullion in the issuing department?—There is an intimate connection between them.

3843. *Chairman.*] Before the Committee of the House of Lords on Commercial Distress in 1848, you were asked this question. Question 1634: “Now we see in these Returns before the Committee, that the Bank have varied their interest at different periods from $1\frac{3}{4}$ per cent. in October 1844, to 9 per cent. in January 1848; and the Committee have had evidence that the Bank has actually demanded 10 per cent. from persons applying to it, with the best possible securities. Now, do you consider that the business of any great commercial country can ever be properly carried on with a variation in the rate of interest between $1\frac{3}{4}$ and 10 per cent.?” This was your answer:

“ I apprehend, in the first place, that the Bank of England has not the power of controlling the rate of interest ; that if circumstances occur naturally, producing very violent fluctuations in the rate of interest, the Bank of England, like everybody else who has money to lend, must conform to those rates. The Bank of England is in no way whatever responsible for those rates, and if it were to attempt to control them, the effect would be to make the variations much greater. To the question whether the commerce of the country can be carried on under such fluctuations of interest as those described, I answer without the slightest hesitation, yes. I have no doubt whatever, that, notwithstanding such fluctuations as those which have actually occurred in this country, the commerce of this country will continue to prosper ; I have no doubt that the commercial prosperity of this country will be restored, and even be placed on a firmer foundation by the events of last year. I answer further, that such fluctuations of interest do take place frequently in the most prosperous commercial countries in the world. If the Committee will refer to the published monthly circular respecting the rate of interest in the United States during the last year, they will find fluctuations much greater than that ; yet the commerce of the United States, there is not the smallest doubt, has been and will be carried on successfully. If the Committee will refer also to Hamburgh, they will find that it is precisely the same there, and I believe they will find that in Holland also, though not to the same extent as in the United States and at Hamburgh, great fluctuations in the rate of interest periodically take place.” Looking back to that answer, does your Lordship see anything which you would

wish to alter, or do you consider that that has been confirmed by subsequent experience?—I am very glad to find that I gave so sensible an answer at that time; I have nothing whatever to add to it, and I see nothing in it which I wish to modify; I think all subsequent experience has confirmed it, and I am quite certain that, let the world last as long as it may, all future experience will tell the same tale.

3844. You were asked in the year 1848 whether the variations in the rate of interest were not such as to render it almost impossible that the trade of the country could be carried on; is not that the same sort of question which we are now asked with respect to the operation of the Act of 1844?—No doubt; the idea of the trade of this country being seriously interfered with by any fluctuations in the rate of interest is entirely unfounded. [Variations in the rate of interest often arise from an increase or decrease of the quantity of money in the country caused by an importation or exportation of the precious metals. But these variations are necessarily transient—the very purpose of them, the maintenance of the equilibrium of the value of the money of this and of other countries, gives security that they will not be of long continuance. Variations of a more permanent character must be connected with circumstances which affect the productiveness of capital. The average rate of profit in different countries must determine the average rate of interest in those countries. In England the rate of interest is at the present moment unusually high. This arises partly from a pressure upon the exchanges, and a tendency to export a portion of the metallic money of the country. The very process will produce the necessary correction;

and the present high rate of interest, so far as it is connected with this cause, will be temporary. The universal expectation that it will be so is evidenced by the fact that the rate of interest is much higher for advances for short periods, such as loans, discounts, &c., than it is for advances of a more permanent character upon mortgage or investment in the public funds. The rate of interest in Holland is *permanently* low as compared with the rate of interest in the United States, because the rate of profit in Holland is low compared with the rate of profit in the United States. But this fact affords no ground for the inference that the prosperity of the United States rests upon a more precarious foundation, or that the probability of its further progress is less than that of Holland. The high rate of interest, arising from the high rate of profit in America is the main cause of its progressive prosperity, and so long as it continues it will insure its future prosperity, notwithstanding temporary interruptions, inasmuch as it gives to that country a proportionally great power of accumulation. The idea that a generally high rate of interest is disadvantageous, though entertained by many, is wholly erroneous. It infers that high profits, of which high interest is a consequence, are injurious, which is the reverse of true. In regard to this subject, Mr. M'Culloch has the following statement:—"No certain conclusion respecting the prosperity of any country can be drawn from the magnitude of its commerce or revenue, or the state of its agriculture or manufactures. Every branch of industry is liable to be affected by secondary or accidental causes. They are always in a state of flux or reflux; and some of them are frequently seen to flourish when others are very much

depressed. The average rate of profit would seem to be, on the whole, the best barometer—the best criterion of national prosperity. A rise of profits is, speaking generally, the effect of industry having become *more* productive; and it shows that the power of the society to amass capital, and to add to its wealth and population, has been increased, and its progress accelerated. A fall of profits, on the contrary, is the effect of industry having become *less* productive, and shows that the power to amass capital has been diminished, and that the progress of the society has been clogged and impeded. However much a particular, and it may be an important, branch of industry is depressed, still, if the average rate of profit be high, we may be assured that the depression cannot continue, and that the condition of the country is really prosperous. On the other hand, though there were no distress in any particular branch—though agriculture, manufactures, and commerce were carried to a greater extent than they had ever been carried before—though a nation had numerous, powerful, and well appointed armies and fleets, and the style of living among the higher classes was more than ordinarily sumptuous; still, if the rate of profit had become comparatively low, we might pretty confidently affirm, that the condition of such nation, how prosperous soever in appearance, was bad and unsound at bottom; that the plague of poverty was secretly creeping on the mass of her citizens; that the foundations of her greatness had been shaken; and that her decline might be anticipated, unless measures were devised for relieving the pressure on her resources, by adding to the productiveness of industry, and, consequently, to the rate of profit.”—[“Principles of Political Economy,” last edition, p. 110.]

Friday, 10th July, 1857.

MEMBERS PRESENT.

Mr. Blackburn.	Mr. Martin Tucker Smith.
Mr. Cayley.	Mr. Spooner.
Mr. Fergus.	The Chancellor of the
Mr. Gladstone.	Exchequer.
Sir James Graham.	Mr. Vance.
Mr. Hankey.	Mr. Weguelin.
Mr. Hildyard.	Mr. Wilson.
Mr. Hope Johnstone.	Sir Charles Wood.
Mr. John Lewis Ricardo.	

The Right Hon. THE CHANCELLOR OF THE EXCHEQUER,
in the Chair.

3845. *Chairman.*] Have you any explanation to give with reference to your evidence of last Tuesday?—I wish to refer to a passage in my examination on the last occasion, in which, speaking of the various fluctuations in the rate of interest, and the imputation that the Bank had resorted, under the compulsion of the Act of 1844, to fluctuations in the rate of interest which had not existed previously, I made a reference to a long section in Mr. Tooke's book upon that subject, in which he criticised a charge of that nature when urged by Mr. Hume. I have now brought with me the volume in which that section is found, and the section itself is so interesting and so important, that I should be glad to read it to the Committee. At the same time, as it occupies 13 or 14

pages, I can hardly venture to ask leave to do so, but perhaps I may be allowed to put it in the hands of the Chairman, with the discretionary power on his part to append it to the evidence if he thinks fit. The section begins in the following words, sarcastically alluding to this charge on the part of Mr. Hume. He says, "Mr. Hume throughout the whole of his speech seems to be impressed with, and to inculcate, the opinion that the Bank of England, by its several notices of the rates at which advances on loans would be made, or bills discounted, really could or did originate or cause the variations in the rate of interest and discount, upon the extent of which variations he descants, as being productive of the most injurious consequences." That is the opening of the section, and it closes with these words: "A country like this having an extensive foreign commerce, extensive beyond any of which there is an example in history, and beyond any which the most sanguine anticipations could some years back have contemplated as within the bounds of probability," (this, you will observe, is with reference to the commerce of the country before the expansion subsequent to 1844), "must by its intimate relations of capital and credit abroad, participate more or less in the tendency to over banking and over trading, and in the consequent revulsions which may occur in the countries with which we are commercially most intimately and most extensively connected. Considering, therefore, the enormous variations in the state of credit and in the rate of interest which have occurred in the United States of America, and the variations also which have taken place, although not on so extended a scale, on the Continent of Europe generally, it ought surely not to be a matter of

wonder that some variation, and an inconvenient degree of it, should have occurred in this country.”

3846. Mr. *Wilson*.] Do you understand that Mr. Tooke has contended since that time against the policy of a variation of interest?—I am perfectly aware that in the later works of Mr. Tooke, with which I am not so conversant as I am with his earlier works, because I do not entertain for his later the same respect that I do for his former opinions, there is a very great dissidence of opinion.

3847. But so far as Mr. Tooke's opinions have been represented to this Committee by a witness who has appeared before it, I am not aware of anything that he has said which should induce the Committee to suppose that he entertains any opinion that the rate of interest should not vary from day to day, or from month to month, as the demands of capital may increase or diminish. I believe the only limit which he has placed upon it (in which I do not agree with him), as appears by the evidence here, is that the Bank should observe the minimum rate of 4 per cent. I believe that is the full extent to which the evidence of Mr. Newmarch went before this Committee.

I think there is nothing inconsistent with that in the passage which you have just read, so far as variations in the rate of interest above 4 per cent. may take place?—My remarks recently made had reference to the examination in the latter part of the last day, in which I referred to the variations in the rate of interest. I understood that it was imputed as a great fault in the Act of 1844, that it had caused much more violent fluctuations in the rate of interest than had existed previously, and that those fluctuations were a great national calamity. My

reply to that was, first of all, a denial of the fact; and, secondly, the statement which I endeavoured to support by the opinion of Mr. Tooke, that great variations in the rate of interest had occurred previously to 1844; that they were inevitable under any management of the paper money of the country; and that they really are phenomena necessarily connected with a country of extended capital and great enterprise, and especially a country in which a rapid creation of wealth is going on.

3848. Do you happen to remember the year in which the usury laws were repealed?—No, I do not remember the exact date of it; there was a partial repeal at first, and a total repeal subsequently. I do not remember the exact dates. [They were substantially repealed in 1839.]

3849. Prior to 1835, I believe they were repealed. Did not the existence of the usury laws very much interfere with the power of the Bank of England to regulate its rate of interest according to the state of the market? It interfered, of course, with the power of the Bank of England to regulate its rate of discount.

3850. So far as the banking operations of the Bank of England went, it interfered with its power to regulate the conditions upon which those banking operations were conducted?—I do not fully understand the drift of that question. I know of no operations of the Bank of England but its banking operations. There is no doubt that the effect of the usury laws was to render it impossible for bills to be discounted avowedly and directly at a higher rate than 5 per cent., but they did not interfere with various other modes of affecting the state of the money market; for instance, that of shortening the *échéance* as it is technically called, of the bills which were

discounted, and that of refusing to discount for parties more than a given amount, not upon the ground of the want of credit, but because the Bank could not discount more than a given amount for the whole community, and it must be divided amongst the different members of the community. Neither did the usury laws deprive the Bank of the power to lend money in other forms which might yield a higher rate of interest than 5 per cent.

3851. But so far as regards either the discount of bills or loans upon securities, which constitute the great business of the Bank of England, it was limited in its operation to 5 per cent.; and therefore, so far its discretion with reference to varying the rate of interest, was limited by the usury laws with regard to its transactions?—The facts of the case are perfectly clear. You could not avowedly charge more than 5 per cent. upon any advance of money, but there were various ways and forms in which money might be advanced and was advanced at a higher rate than 5 per cent.

3852. Those forms could only be, as far as the Bank of England was concerned indirectly by the purchase of securities at a depreciated rate; and as far as other bankers or brokers were concerned, by adding a commission to the rate of interest which they charged?—As I have already said, there were various indirect modes of acting upon the state of the money market; that is to say, of raising the rate of interest. There was the mode of charging a commission upon the bills discounted. Then there were various other modes of lending money; in reality, lending money, but under the form of purchase and sale.

3853. But there is no doubt, is there, that the usury

laws did operate as an impediment to the free and convenient operations of loans through the Bank of England, which was not in the habit of charging commission, and did only charge a rate of interest?—There can be no doubt that the existence of the Usury Laws was a very serious and a very impolitic impediment to the free distribution of capital by the channels and through the forms which it would otherwise naturally have assumed.

3854. Is it a fair definition of the rate of interest, to say that it is the price paid for the use of floating capital for the time being?—I am always afraid of expressing, without a great deal of consideration, definitions upon a question of scientific principle. No doubt, speaking generally, not being bound to the exact accuracy of the very words used, the rate of interest is the price paid for obtaining the command of capital.

3855. And there is no reason whatever, that you are aware of, why the price for the use of capital should be fixed, any more than the price of any other commodity which is subject to the fluctuation in its supply and demand?—None whatever.

3856. Is it not the best scurity against scarcity, that in proportion as an article is scarce, the price should rise, in order not only to encourage economy in its use, but also to encourage further supplies from extraneous sources?—The question is now assuming the shape of a discussion upon the subject of the primary principles of political economy. That free trade in an article is the best mode of securing all the results with regard to it which you desire, is a principle which I fully adopt.

3857. Is it not advantageous to the country at large, if there is a scarcity of loanable floating capital, that the

price of it, that is to say, that the rate of interest should rise in proportion as that scarcity is experienced?—Capital is like everything else: the regulation of the proportions between the supply and demand is best accomplished by leaving it to the free action of the market.

3858. And the only sound principle with regard to the price of capital, like anything else, is the relation which supply and demand preserve to each other?—Yes.

3859. A question was asked on the last day whether, if the profits of business were 5 or 7 per cent., it would not make a great difference in the operations of the merchant whether he paid 4 per cent or 6 per cent. discount for his bills; must it not be taken into account that the discount of a bill refers only to a short period (I suppose we may take the average of the period of bills as not exceeding three months), and that therefore any increase in the rate of interest would really bear the proportion to the profits of the transaction which the period that the bill had to run bore to a whole year?—The question, of course, involves a great number of points; if a person has to discount his bill for the purpose of finding capital for business, in all probability he has to go through a series of such discounts successively; therefore we must first consider whether we are dealing with a single act of discount or with an act of discount forming a link of a long chain of similar transactions; but there is no doubt about this, that if you can assume a state of high rate of profit accompanied by a facility of obtaining capital at a very low rate as the means of making that profit, that is an exceedingly desirable state of things to the person who borrows capital to trade with; but it is a state of things

which is inconsistent with itself; a high rate of profit will always create a great demand for capital; a great demand for capital will raise the value of it.

3860. But the rate of interest in point of fact is in the long run governed by the rate of profit?—Yes; the rate of interest is governed by the proportion between the demand and the supply of capital, and the rate of profit, no doubt, is an important ingredient in settling that question. [In the long run it is the principal if not the sole consideration in determining the rate of interest.]

3861. Suppose that a merchant sells his goods for 1000*l.*, and, instead of receiving cash, he receives a bill at three months, which he has to discount. Suppose that he receives 6 per cent. profit upon the goods, and has to pay 4 per cent. upon the bill, the difference between the rate of 4 per cent. which he would pay for the discount in the one case, and 6 per cent. which he would receive in the other, would be only $\frac{1}{2}$ per cent. upon the transaction, would it?—I dare say that is a correct calculation; it may be considered to be so.

3862. Therefore, so far as affects profits, the difference in the rate of discount by no means represents the difference in the rate of profit?—The rate of profit is dependent upon other circumstances no doubt than the rate of discount; the only thing is, that if a person is trading with borrowed capital, if you assume a given rate of profit, of course the ultimate result to him will be affected by any variations in the rate which he has to pay for the borrowed capital.

3863. But if his profit be 6 per cent. upon the transaction, and he has to discount his bill at three months, the

discount for the three months only represents the interest for a fourth of the year, and therefore the difference between the two rates of interest will only be one-fourth of the apparent difference of the rates?—No doubt, if you assume that capital is employed for a year to make 6 per cent. profit, and that for one-fourth part of the year he has to pay a certain rate of interest for borrowing the capital, any fluctuation in the rate of interest which he pays for that one-fourth part of the year, produces only one-fourth part of the effect upon his ultimate profit that it would do if he had to borrow it for the whole year.

3864. I think you have stated that a high rate of interest indicates a high rate of profit?—No; I have not stated that. I have stated that a high rate of profit has a strong tendency to produce a high rate of interest. I have not stated that a high rate of interest is always indicative of a high rate of profit, but they have a very intimate relation to each other; there are other circumstances which will affect it.

3865. Could a high rate of interest be permanently maintained in the face of a very low rate of profit?—I should think not.

3866. Therefore, a high rate of interest permanently maintained, indicates a high rate of profit?—I should think that a high rate of interest and a low rate of profit could not permanently co-exist.

3867. Therefore, a permanently high rate of interest would indicate a high rate of profit?—Other things being assumed to be unchanged.

3868. Therefore, supposing that a man is carrying on his business partly with borrowed capital and partly with

his own capital, a high rate of interest will be to him, so far as his own capital is concerned, an absolute advantage?—I do not quite see the drift of the question; a high rate of interest to a man trading upon his own capital, I think would not affect the question of that capital, because the return for his capital would depend upon the profits of business; the high rate of interest would affect only that portion which he borrowed.

3869. A high rate of interest is indicative of a high rate of profit?—We must take care of the full force and meaning of the expression “indicative.” [The demand for capital is not always for reproductive or profitable employment. In such cases the rise of interest caused by the increased demand for capital does not necessarily indicate an increased rate of profit. The recent rise in the rate of interest has had its origin in an increased demand for capital—partly for the purpose of supporting the vast expansion of trade throughout the world, and so far it is directly connected with an increase in the rate of profit—but partly for the purpose of supplying the calls of the various countries of Europe for the unproductive expenditure of war, and so far it has no direct connexion with, and therefore affords no presumptive evidence of, any increase in the rate of profit.]

3870. If a permanently high rate of interest is indicative of a high rate of profit, would it not be the case that a person trading with his own capital would have the advantage of the high rate of interest, plus the ordinary profit beyond the rate of interest?—If the rate of profit is high, a person trading with his own capital gets the benefit of that high rate of profit; if the rate of interest is high, so far as he trades with borrowed capital, he has

to pay that high rate. The thing is perfectly simple. I do not see the drift of the questions, nor do I see the difficulty of them.

3871. Then, so far from its being a ground of complaint on the part of those who are trading with their own capital, or, in a great measure with their own capital, that the rate of interest is permanently high, it ought rather to be a source of congratulation?—It not only ought to be, but I do not suppose the world ever presented such a phenomenon as a man trading entirely with his own capital who complained of a high rate of interest.

3872. The question also assumed the case of those trading partly with their own capital and partly with borrowed capital?—Then you have to take the proportions; the person is a sufferer, so far as he trades with borrowed capital, and a gainer so far as he trades with his own capital.

3873. He would not be a sufferer if the rate of profit was sufficient to compensate him for the high rate of interest?—No doubt; the answer is involved in the question.

3874. In your Lordship's last day's evidence, in answer to Question 3646, you stated that you understood the main principle of the Act of 1844 to be, to make the variations in the amount of paper-money conform to the variations of the metallic currency; you are not of opinion that the convertibility of the note alone would effect that object?—No, certainly not: the experience of the history of this country in an endless series of instances is directly contradictory of that. [Every occasion on which the paper money of the country

has been maintained at an undiminished amount during a progressive drain of bullion is a case in point, and affords an example of the amount of paper money failing to conform to the variations of the metallic currency, notwithstanding the convertibility of the note.

Take the state of the circulation from 1834 to 1837, as set forth in the examination of Mr. (Weguelin Question 1045 to 1054).

	<i>Circulation.</i>	<i>Bullion.</i>
1834—Jan.	37,855,958	9,952,500
1837—Jan.	38,549,195	3,990,600

Thus it appears that the aggregate circulation rather increased during a period in which the bullion sustained a diminution of six millions. It is clear then that the convertibility of the note was wholly insufficient to make the variations in the amount of the paper money conform to the variations of the metallic currency.

The lesson thus taught by the course of monetary events in this country is confirmed by similar experience in the United States. To this we have the valuable testimony of Mr. Daniel Webster. "I lay it down as an unquestionable truth, that no paper can be made equal, and kept equal to gold or silver, but such as is convertible into gold or silver, on demand. But I have gone farther, and still go farther, than this. I contend that even convertibility, though itself indispensable, is not a certain and unfailing ground of reliance. There is a liability to excessive issues of paper, even while paper is convertible at will; of this there can be no doubt."—Sub. Treasury Speech, March, 1838, p. 12.

Mr. Tooke, in his pamphlet, 1826, pp. 53-4, distinctly

attributes the inflated state of prices during the preceding years, to an excess of paper, although convertible; and the subsequent fall of prices he considers to have been the inevitable consequence of the efflux of bullion, producing a great contraction of the currency previously issued in excess, notwithstanding the check of convertibility. "There could be little doubt that the rise of prices, in every case in which it could not be distinctly accounted for and justified by scarcity, was delusive, and must have been connected with excess of paper. It was evident that this excess of paper could not be retained much longer, while subject to the check of convertibility; and that when the efflux should take place the great contraction of the currency which would ensue, must inevitably entail a fall of prices to, or possibly below, the level from whence they had risen, accompanied with great commercial reverses, and with every appearance of gloom and depression, succeeding to the excitement and apparent prosperity which had marked the preceding twelvemonth."

Again p. 66. "In July, 1824, there was a considerable decline in the continental exchanges, and an evident efflux of gold. Here, then, was a warning not to be mistaken, even supposing the amount of the circulation justifiable down to that time. But instead of attending to this infallible criterion of excess, the directors made at that precise time, the great increase to their issues, compared with the preceding January, which has been stated in the previous section, when a drain upon their treasure had actually begun."

It would only be to accumulate superfluous proof were we to adduce further considerations to show that the convertibility of the note will not alone secure the cer-

tainty that variations in the amount of paper money shall conform to the variations of the metallic money.]

3875. When you say, conform to the metallic currency, do you mean conform in value?—I mean conform in amount; and the value of the paper currency results from its being kept at the same amount as the metallic currency would have been.

3876. Are you of opinion that as long as the convertibility of the paper is maintained there can be any difference in the value between the paper portion of the currency and the metallic portion of the currency?—None, so far as internal purposes are concerned.

3877. Of course the paper portion of the currency is not applicable to external purposes at all?—Clearly not.

3878. But for all purposes of internal circulation the paper, as long as it is convertible, must be identical in value with the coin?—No doubt it must; but we must remember that the great principle of the Act of 1844 had reference to the question of the value of the currency of this country with reference to the currency of all the other countries of the world; in other words, that they had reference to the circumstances and considerations which affect the state of the exchanges. [“ Although an over issue of convertible paper is not indicated by any fall in its value, as compared with gold, in the country in which it is issued, it is notwithstanding clearly indicated by a fall in the exchange, and an exportation of gold. The fact of the exchange being depressed and of gold continuing for any considerable period, to be demanded from the Bank and exported, is, independently of all other considerations, a conclusive proof that the currency has become relatively redundant or depreciated, as com-

pared with the currencies of other countries.”—Macculloch, Art. “Money,” p. 55.]

3879. What do you include in the term “currency;” do you include the notes and coin in the hands of the public only, or do you include the coin in the Bank of England as well?—I consider the Bank of England as a very important personage amongst the public; I know no difference between the Bank of England and my own bank, so far as that is concerned.

3880. Do you include the bullion in the Bank of England as part of the currency?—Precious metal in the Banking Department I consider to be currency, but not bullion in the Issue Department; because, against that, notes have been issued as representing it.

3881. The uncoined bullion?—Coining has nothing whatever to do with the question. Coining or non-coining is a mere question of mechanical convenience.

3882. But bullion is not a legal tender; coin is?—That is a mechanical question. Suppose I have an ingot of gold, and I tender it in payment of 10,000*l.* of bank notes and the holder of the notes says, “That is not a legal tender,” and I have to coin it, that is a mere mechanical question; it has nothing to do with the principle with reference to the distribution of the precious metals, which is the real principle at the bottom of this subject.

3883. Then you consider that the whole of the bullion and the supplies of coin and of notes constitute the entire circulation of the country?—I think that if we were to substitute the word “money” for the word “circulation,” it might perhaps assist us in keeping our ideas clear. I consider that to be the money of the country which is held

in a state of readiness at all times to be used as the great universal equivalent; that which will purchase and pay for everything else.

3884. Would you include bullion in the hands of a private party?—No; I apprehend that any person importing bullion into this country, if he intends it to be held in readiness for the purpose of discharging the functions of the universal equivalent, will, as a matter of course, deposit it in the Issue Department of the Bank of England, and assuming that to be true, I look upon none as money except the bullion which is so deposited, and that bullion is represented by notes issued against it. If a merchant retains the bullion in his own possession, I conclude that he retains it for other purposes than to act as the great universal equivalent.

3885. But so far as principle is concerned, an ingot of gold in the hands of an importer would be as much a legal tender, and as easily converted into coin as in the hands of the Bank of England?—No, not whilst held in the hands of the merchant. The moment he deposits it in the Bank of England, or the moment he takes it to the Mint, then he converts it into part of the great universal equivalent, which constitutes money.

3886. I understood your Lordship to say that the reason why an ingot was the same as coin was, that if it was offered in payment of a debt and refused, because it was not a legal tender, it would only require the mechanical operation of coining it. Would not that apply as much if it was in the hands of a private person as if it was in the hands of the Bank of England?—It is not a question of the party in whose hands it is; the question

is, in what character, and for what purpose it is retained and held. If I have a piece of gold plate on my dinner table, that is not money; but no doubt I might send that gold plate and have it melted down into an ingot, and then deposit it in the Bank of England; then I should convert it into a part of the great universal equivalent, that is into money, by that process. The question is the purpose for which it is held.

3887. You are aware of course that the Bank of England pay 3*l.* 17*s.* 9*d.* per ounce for bullion, and sell it at 3*l.* 17*s.* 10½*d.*?—Yes.

3888. Has it not been the case since bullion has become so large an article of commerce, that private individuals, during the last two years, have for a short period held bullion without taking it to the Bank, in expectation of a foreign demand at the full price at which they could purchase it from the Bank?—I am not conversant with those facts; I cannot say whether that is the fact or not; but it is quite possible that it may be the fact. We must, first of all, in discussing a question of this sort, lay down clearly and distinctly the principles upon which it depends; then, no doubt, facts may always be discovered which lie upon the border of those principles, and you may put facts which are in such an equivocal position, that it may be almost a matter of doubt whether they come within the principle or whether they do not; but that does not shake or invalidate the great principles; we never can come to any rational conclusions upon a subject of this sort unless we eliminate from our minds all reference to those equivocal facts, and fix our minds clearly and distinctly upon the great and plain principle

which underlies the whole subject. In the supposition put, the bullion is imported and exported by the private merchant as any other ordinary article of commerce; it does not assume the unequivocal character of money, or the universal equivalent.

3889. Is it not part of the great and plain principle, whether bullion is money or not, and not merely whether it is money in the hands of the Bank of England or in the hands of any other banker in London?—Bullion may or may not be money, just as paper may or may not be a bank note; it depends entirely upon the form and purpose for which it is retained and held in readiness.

3890. Then you do not at all agree with those witnesses who have been before this Committee who considered that the circulation consisted of the notes and coin in the hands of the public, as distinguished from those in the Bank of England?—No; I think that is quite alien from all sound and rational views of the subject. [When notes are put forth by the Issue Department, they at once become part of the money of the country, and of that character they cannot be deprived by any process except that of returning them into the Issue Department. The notes may be in the pocket of an individual, in the drawer of a tradesman, in the till of a private banker, or in the till of the Bank of England. In whichever of those conditions the note may be, it is equally held in readiness to perform all the legitimate functions of money, and may at any moment be used for that purpose at the free discretion of the holder. It is therefore in every rational meaning of the word part of the money of the country. But when the note has been returned to the Issue Department, the

case becomes altogether different. The note then loses its readiness to perform the functions of money, it is no longer capable of being used for that purpose at the free discretion of any person. To redeem the notes from the Issue Department, and again put them into circulation as money it is necessary that an equivalent amount of bullion be first paid into the Issue Department.]

3891. Prior to the Act of 1844, what did you consider as the paper circulation of the country?—That at once leads to the question, whether bank notes lying in the till of the Banking Department of the Bank of England are part of the money of the country; if you raise that question, I have no objection to discuss it. I have no hesitation in saying that they are not only a part, but a most important and vital part of the money of the country.

3892. In your evidence before the Committee in 1840 you gave in a paper to the Committee which showed certain variations between the circulation of paper money of the Bank of England and the bullion held by the Bank; do you remember that paper?—I do not.

3893. In that paper a comparison was made between the notes of the Bank in the hands of the public and the bullion held by the Bank; and it was contended, not only by your Lordship but by other witnesses, that those notes in the hands of the public ought to fluctuate in the same way that the bullion in the Bank fluctuated; was not that so?—There is no doubt that when there were no means whatever of knowing what was the Bank reserve, we were obliged to discuss the subject upon the facts and data which we could obtain, and the only knowledge which we could then obtain was the

amount of notes out of the Bank of England; but I stated, in reply to your questions on a former occasion, that when the accounts were reduced into a correct and rational form, the notes in the till of the Bank of England would form part of the circulation, and that it would be a very satisfactory thing when we arrived at a clear and distinct knowledge of that important part of the circulation. —[It may be right to quote at length the question and answer here referred to.

Question (5195) by Mr. Wilson. I think that all the evidence which was given before the Bank Committee of 1840, and all the discussion which preceded that Act, in arguing upon the circulation, were confined to the notes actually in the hands of the public?

Answer. You will find many answers in my evidence in the year 1840, in which I distinctly referred to the notes which are in the Bank till, and in which I stated that it was an unfortunate circumstance attending the then existing system, that we had no means of knowing what the amount of these notes was, and therefore we were obliged to reason upon uncertain data; there was certainly no possibility of dealing with anything but the notes in the hands of the public; but I stated that the notes in the Bank till constitute a part of the circulation, and that when the accounts were separated, they would so appear.—“Evidence before Committee on Commercial Distress, 1848.”]

3894. I think you held it then as conclusive of mismanagement on the part of the Bank if the notes in the hands of the public were not contracted in the same measure as the bullion in the hands of the Bank?—The principle is perfectly obvious and distinct. We saw the very impro-

per and unsatisfactory state of the monetary system of the country; we maintained that that unsatisfactory state consisted essentially in the nonconformity of the paper money of the country to the fluctuations of the bullion. The only means that we had of judging of the quantity of paper money in the country was by looking at the paper money outside the walls of the Bank of England; and therefore we reasoned with regard to it; but it was always accompanied with the qualification that the paper notes in the till of the Bank of England must be an important part of the matter, and it was very unfortunate that we had no knowledge of it.—[As this is an important point, it may tend to a more full elucidation of it, if the very words of the questions and answers referred to be quoted, as given in evidence in 1840. Question 2656.—“Do you include in the circulation of the Bank of England the reserves held by the Bank of England against its deposits? —As the accounts are at present kept this is not included in the circulation; but under a proper separation of the accounts I conceive that it would be included. The circulation now includes only those notes which are out of the walls of the Bank of England; under a proper separation of the accounts, it would include all notes that are out of the walls of the currency department, and, therefore, of course would include the notes that are in the till of the banking department.

“2657. In case of a separation of the business of the Bank of England into two departments, one of issue, and the other of ordinary banking, would not the reserve held by the banking department be a reserve in notes? I understand the word Reserve to refer to the notes which the Bank of England, as a bank, holds in its till, for the

purpose of meeting the current demands of its banking business.

“3479. You are of opinion that it is in the power of the Bank to regulate the amount of their circulation?—I am.

“3480. Do you mean that they can contract or increase as they please that portion which you call circulation, and which appears as such in the “Gazette?” I mean, that I conceive the Bank of England has the power of increasing or diminishing the number of notes which it has out.

“3481. And the number of notes which are out are limited, in your opinion, to that which is included in the return of circulation?—The explanation of my meaning on that point is contained in the early part of my first day’s examination. I consider circulation to be, notes out of the walls of the Bank of England, and also the amount that is in reality reserved in the till of the Bank, to meet the demands of the banking business.

“3483. You have stated that there has been an increase of reserve in the till of the Bank; is there any publication by the Bank, that shows the amount of that reserve?—None whatever; and that is one of the inconvenient consequences arising from the connexion of issue with banking.

“3614. Suppose your plan of separating the Bank into two departments, one of issue, the other deposit, were carried into effect, would not the whole currency, as reported by the bank of issue, appear as circulation?—Upon the supposition of the separation of the departments, the whole amount of bank notes, either in the hands of the public, or in the till of the banking department, would appear as circulation.]”

3895. Taking the correspondent element now, namely,

the notes in the hands of the public, since the Act of 1844 can you discover any coincidence in the fluctuations of the notes in the hands of the public out of the Bank, and the fluctuations of bullion?—I have not looked into it specially with that view, because I do not think it is a matter of the slightest importance. We know this, not as a matter of reasoning or of induction, but as a matter of positive fact, that, under the operation of the paper money of this country, as regulated by the Act of 1844, we have effectually accomplished those results which we wished to accomplish; and those results, the non-accomplishment of which constituted all the evils and grievances of preceding crises of our monetary system. It is very possible, indeed it is very natural, that during the early part of a period of pressure and drain the notes outside the walls of the Bank of England should not diminish; and it is upon that very fact that I ground distinctly and emphatically my maintenance of the principles of the Act of 1844, and my declaration of their absolute necessity for the safety of the monetary system. What is the natural course of things? When a pressure arises, every banker (the Bank of England is nothing more than a banker upon a large scale) is desirous, as far as he properly can, to meet the wants of his customers, and to satisfy their expectations. To do that he strains his banking reserve as far as he thinks he can safely do so; and when he finds that he can do so no further, then he must either contract his accommodation to his customers, or he must realise other securities to strengthen his means of assisting them. That is the natural and obvious course of things. Now, previously to the Act of 1844, whilst that principle was in operation upon the Bank of England, the reserve

of the Bank of England was undefined and unlimited; the Bank of England had the power of supporting its accommodation to its customers by an unlimited issue of notes. When I say an unlimited issue of notes, I mean limited by no other restraint than the final and ultimate obligation of paying them in gold. The Bank went on doing this, no difficulty arising with regard to the extent of its banking reserve, and it went on making these advances of its notes, until by that process the bullion in the Bank of England was reduced to an extent which created great alarm and panic amongst the public, and then through that action upon the public a correction very possibly took place, but not always. Since the Act of 1844 has been passed, the Bank reserve is distinctly defined and limited, and instead of allowing the pressure to come upon the reserve of the bullion, the pressure comes upon the reserve of the Bank of England, which everybody knows, and everybody watches. It therefore produces its moral as well as its direct, and what I may call its mechanical effect, and by that means, from having defined and made known to the public the state of the reserve in the Bank of England, we are enabled to exercise an influence upon the exchanges, and to protect the bullion from that extreme exhaustion to which on all occasions previously to 1844 it was exposed. That is the very fact upon which the merit and the efficiency of the Act of 1844 rests. When persons bring forward that fact as an objection to the Act, they are in the situation of persons who come to curse, but the very force of truth compels them to bless.

3896. Do I correctly understand your Lordship, that you give up the argument which you used in 1840, that

the fluctuations in the notes out of the Bank of England ought to conform to the fluctuations in the amount of bullion?—I give it up so far as this,—if that is the meaning of giving up, it is really completing the statement, in no respect giving it up—that now with the means of information which we possess, the notes out of the Bank of England must have added to them the notes which are in the banking reserve of the Bank of England.

3897. Are you not aware that for some time before the passing of the Act of 1844, a separation of the departments in the Bank of England was made as a matter of account, in the same way as has been done since?—I have not had my attention drawn to it for a great number of years, but I have a general recollection that previously to adopting the Act of 1844, when the principles upon which that Act was subsequently founded were brought under serious discussion, and were recommended, the authorities of the Bank very naturally and properly began to try by a private memorandum account of their own how they expected that this matter would work; but it was an act entirely amongst themselves; it was an act not laid before the public, and therefore in no respect exercising any influence over the public mind, or the action of the public.

3898. It was a plan which they voluntarily adopted of managing their business?—No; I do not apprehend that it was a plan for managing their business at that time, but a tentative account for their private information. I am of course speaking ignorantly, because I was not in the Bank direction. My impression of it is, that it was an account made out for the purpose of trying, before it had the validity and obligation of law given to it, how such an account would work, and how under such an account the

Bank directors could undertake to be responsible for the management of their concern. It was a very natural process, very simple and intelligible.

3899. You do not hold the opinion that the notes in the hands of the public ought to fluctuate now in relation to the fluctuations of the bullion in the Bank?—The opinion which I hold is perfectly plain and distinct, that bank notes are nothing more than certificates of bullion in deposit, and that they ought to fluctuate exactly as the bullion fluctuates.

3900. I speak of the bank notes in the hands of the public?—But I never do speak of them in that sense of the word, because I maintain distinctly that the Bank of England is itself a most important portion of the public.

3901. Still you admit that the whole of the evidence prior to 1844 proceeded upon the notes in the hands of the public only?—Yes; it proceeded upon the notes in the hands of the public only, because that was the only knowledge which we then possessed. But I repeat, what I have stated over and over again, and what you will find I gave in answer to you on a former examination, that we always said that whenever the accounts were put into a correct, and intelligible and honest form, we should then have some knowledge of the Bank reserve, and that that Bank reserve was a very important part of the question. [The confusion and ambiguity which this and the preceding questions are calculated to create will be effectually cleared up by reference to a very lucid statement on this point, by Mr. Arbuthnot, in his recent publication in vindication of the Act of 1844 (p. 81).

“ If any argument were wanting to show the wisdom of the measure of separating the functions of issue and

banking, it would be afforded by the pertinacity with which the opponents of the Act of 1844 refuse to recognise the arrangement. The proposition is, that, if the issue of notes be kept distinct from the business of banking, and every note issued beyond a certain limit be issued only in exchange for bullion, every note so issued is a certificate of value actually held in deposit, and any day reclaimable; and that the total amount of notes issued must vary with the amount of bullion in deposit. No proposition can be more plain or undeniable. It is evaded by mixing together the accounts of the issue and banking department, and striking out of the account the reserve of notes held in the latter department. The whole train of sophistry which we have had under consideration hangs upon this expedient. The word 'circulation' is applied by these writers, as we have observed already, to that portion only of the notes of the Bank of England which is in the hands of the public, excluding the reserve in the banking department.

" They then state that the scheme of the Act of 1844 is founded on the theory that a note circulation, as regulated by that Act, must fluctuate in amount, as a pure metallic currency would fluctuate; they prove by figures without end that the circulation, according to their limited acceptance of the term, does not so fluctuate, and they conclude that the theory of the Act is disproved. The answer to this reasoning is, that it is founded on a quibble about the interpretation of a word, which substitutes a part of the thing meant for the whole. The thing meant was, a note issued in exchange for bullion deposited in the issue department, and the aggregate quantity of notes issued from that department, which may be designated as

circulation, paper money, or any other name that may be agreed upon; and the theory was, that such aggregate quantity must vary with the amount of bullion deposited. Preserve the separation of departments, and that theory is worked out in a way that makes its truth palpable to any mind of ordinary capacity; revert to the old form of account, and that confusion must arise which is only favourable to fallacy.]

3902. Then it does not necessarily follow that the charges brought against the Bank of mismanagement prior to 1844, simply because the notes in the hands of the public did not conform to the variations in the bullion, were quite correct?—No; but then it was for this reason the notes in the hands of the public then were the only means by which, with regard to the regulation of the paper issues, we could act upon the exchanges. We had then no knowledge of the state of the banking reserve, and whilst the public had no knowledge of it, the fluctuation in the banking reserve was of no efficiency in the management of the circulation. But the Act of 1844 has given the public the means of knowing the fluctuations in the banking reserve; and we now obtain through that Act, those means of regulating the paper issues of the country which previously to 1844 we had not. Therefore previously to 1844 there were no means of acting upon the exchanges except two, one of which was alarm with regard to the exhaustion of the bullion, and the only protection against that, under those circumstances, was the other means, viz., the absolute reduction of the paper issues outside the walls of the Bank.

3903. Had we not before 1844, as perfect a knowledge of the fluctuations in the bullion in the Bank as we have

had since?—I do not now remember what the state of the accounts was before 1844.

3904. Did not the monthly accounts before 1844 give the amount of bullion in the vaults of the Bank?—I am not sure whether they did or not. The subject to which these questions are directed, of the effect before 1844 of keeping a blended account, and the effect subsequently to 1844 of keeping a separate account, is really a very important one. This morning before I came down, thinking over the subject of my probable examination, I sat down, and remembering the great maxim of Bacon, that writing makes an accurate man, I spent an hour in writing down the heads of my view upon that subject. If the Committee will excuse me, I will endeavour from those notes to make a statement upon the subject.

3905. Perhaps you will allow me to ask you one or two preliminary questions. In a recent answer you stated that prior to 1844 you were obliged to argue only upon the notes in the hands of the public, because there was no knowledge of the reserve in the Bank; upon which I asked whether it was not the case that the amount of bullion in the Bank was published in the periodical accounts of the Bank?—We will assume that it was.

3906. Was not the bullion the real reserve of the Bank of England to meet its liabilities?—The Bank of England before 1844 had an unlimited power of issuing notes.

3907. That is to say, as far as the public would take them?—The public will take the Bank notes; that is, the public will call for and take money to any extent; there is no fear of that.

3908. You have stated on the former day, that if the Bank of England had the power to-day to issue

2,000,000*l.* more upon securities, it would be unable to get those notes into the hands of the public?—If I have so stated, I have made a great mistake; I hope and believe I have not so stated.

3909. You were asked this question, No. 3691: “You entertain no doubt that the practical effect of enlarging the limit from 14,000,000*l.* to 16,000,000*l.* would be, not to add 2,000,000*l.* to the paper currency, but to diminish the bullion reserve of the Bank by 2,000,000*l.*?”—It would be to add to the paper currency, and to diminish the bullion to the same extent.

3910. The answer is, “No person who understands the elements of the subject, can entertain a doubt upon that point.” Therefore you say that it would not add to the paper currency?—I do not know whether the word “not” has crept in improperly or not, but the thing is perfectly clear. The principles which I laid down show what the answer is. The question is, “You entertain no doubt that the practical effect of enlarging the limit from 14,000,000*l.* to 16,000,000*l.* would be, not to add 2,000,000*l.* to the paper currency, but to diminish the bullion reserve of the Bank by 2,000,000*l.*?”—No person who understands the elements of the subject, can entertain a doubt upon that point.” The answer was given upon the understanding and supposition, that increasing the issue upon securities from 14,000,000*l.* to 16,000,000*l.* would add 2,000,000*l.* to the whole money in the country. To which my answer is, No; and I am quite sure that all my other answers will show it. My answer is, No; it will not add one farthing to the money in the country. It will make an alteration in the relative amounts of money advanced upon bullion, and

money advanced upon securities. Instead of 14,000,000*l.* advanced upon securities, you will have 16,000,000*l.* upon securities; and instead of whatever amount the bullion is, assuming it to be 10,000,000*l.*, you will have 8,000,000*l.* advanced upon bullion.—[The principle here alluded to has been stated in the shortest and clearest form by Mr. Ricardo: “It will be readily admitted that whilst there is any great portion of coin in circulation, every increase of Bank notes, though it will for a short time lower the value of the whole currency, paper as well as gold, yet that such depression will not be permanent, because the redundant and cheap currency will lower the exchange, and will occasion the exportation of a portion of the coin, which will cease as soon as the remainder of the currency shall have regained its value, and restored the exchange to par,”—“High Price of Bullion, &c.,” p. 83.]

3911. Then may I take it as your opinion, that if the Bank of England had the power to issue that additional 2,000,000*l.* of notes upon securities, and they wished it, they could get that 2,000,000*l.* into circulation?—I have not the slightest doubt of it. But then the additional issue of 2,000,000*l.* notes upon securities would cause a redundancy of money to that extent; the effect of this would be an export of bullion to that extent, and a corresponding cancellation of notes. Thus the paper money would be brought back to its original amount, but during the process we should have lost two millions of our bullion.

3912. Then you do not agree either with the late Governor of the Bank, or with the former Governor of the Bank (Mr. Hubbard), as to the inability in the issue

of notes to get their notes out beyond the limit of the demand which the public may make upon them?—I would rather not undertake to say whether I agree with Mr. A. or with Mr. B. I am quite ready to state my own opinions, and leave the Committee to form a judgment how far they coincide or not with the opinions of other persons. I have no hesitation in saying that the Bank of England can put out any quantity of its notes that it thinks proper; that the effect of that will be to drive gold out of the country; that the notes will take the place of the gold in the circulation, and that will go on until the whole of the gold has been driven out of the country. And if you want a practical illustration of that, I refer you to the passage from Mr. Webster's speech, which I quoted in the early part of my evidence the other day, in which he stated distinctly that the paper throughout the whole of the United States had entirely banished the gold. That you may do, and you may go still further; after you have banished the whole of the gold, then of course you come to a suspension of specie payments, and you may go on after that putting out your paper to any extent you think proper—there is no limit. [It is really surprising, after the many discussions it has undergone, that there should be any doubt about this matter. Suppose that a bank is established for the first time in a country which has its proper supply of a gold currency, and that it proposes to issue notes. The question is, how will they get into circulation? Partly because they are in various respects more convenient than coins, and partly because, in order to bring them into circulation, the bank discounts bills and makes advances at some half per cent., or one per cent., under the ordinary rate of interest at the

time. In this way, her notes will be readily taken into circulation, and the coins which they displace will be exported. When the bank thinks that her circulation is sufficiently extensive, she will raise the rate of discount, and the further issue of notes will cease ; or, if desired, the quantity afloat may be diminished. Other banks, were they afterwards established, might, by following the like tactics, get their notes into circulation. They might discount at somewhat lower rates than the existing banks, or they might make advances upon paper of an inferior class, or at longer dates, and so on. In short, it is plain that they might, by competing with each other, occasion such an over issue of paper as would banish gold entirely from the circulation, and thus lead in the end to their universal stoppage. This result has in fact happened over and over again.]

3913. Is not the paper currency of this country limited to 5*l.* and upwards?—Yes.

3914. Would it be possible, in your opinion, to displace the gold circulation with 5*l.* notes?—No ; not altogether to displace the gold circulation with 5*l.* notes. That of course is simply this question, whether I think that 5*l.* notes can be made to perform all the functions and duties of 1*l.* notes—certainly not. [But at the same time it is most probable, under the supposed circumstances, that the supply of coins to make small payments would be very scanty, and that various devices would be resorted to to enable them to be dispensed with. And it is not unlikely, too, that they would be deficient in weight and purity, like the silver coins in the reign of George III.]

3915. Do you think that the Bank of England, by any power of its own, could induce its customers to take

5*l.* notes, instead of sovereigns, if sovereigns were required for their convenience?—Really this is hair-splitting, which is not worth the time of the Committee. The Bank can persuade the public to take 5*l.* notes instead of sovereigns, in every case in which the public use the sovereigns in masses, or lots of five each; but they cannot persuade the public to take the 5*l.* notes to perform the functions of smaller change than 5*l.*

3916. Is it not absolutely necessary for the public to have a currency in such denominations as suit the convenience of trade?—We are now mixing up two different things. The practical convenience of currency in its small fractional parts for internal purposes is one thing, but that is not the question which this Committee ought to discuss; they have to discuss the great question of the relative value of the money of this country with regard to the money of other countries, and the effect of disturbances in that relative value upon the action of the exchanges.

3917. You have stated that you differ in opinion from the two Governors of the Bank of England, who have been before the Committee, and that you think that the Bank of England has the power of its own will to issue to the public notes to any extent it pleases, and to such an extent that it may displace the whole metallic currency of the country; surely it is a most important point to know whether an opinion of that kind is well grounded or not?—No doubt it is very important to know it.

3918. Would it be possible in the present state of the currency of this country for the Bank of England, if it had an unlimited power of issuing its notes, so long as those notes were limited to 5*l.* and upwards, to displace

any material portion of the metallic currency of this country?—It is perfectly possible to displace sufficient, speaking upon general principles, to justify me in saying the whole metallic currency of the country; I do not mean by that, that it would drive out that small portion of the metallic currency of the country which is required for the purposes of small change, but it would drive out all that portion of the metallic money of the country which is held in readiness to meet the demand of foreign exchanges when they turn against us; that is quite consistent with the fact that it does not displace the small change of the country.

3919. From what source is the bullion derived to meet an adverse exchange and a drain of bullion; do you suppose that it is from the circulation of the country, from the coin in circulation in the hands of the public? —That, perhaps, would be an ultimate resource, but ordinarily speaking, and except under a severe and extraordinary strain, it is the bullion lying in the coffers of the Issue Department of the Bank of England.

3920. The reserve of bullion in the Bank?—The reserve of bullion in the Issue Department.

3921. In the Bank of England?—Take my words as I give them, and do not alter them, if you please; the reserve of bullion in the Issue Department.

3922. I think you stated in your last day's evidence that the bank with which you had been long connected, had not been a bank of issue?—I did.

3923. But a bank of deposit only?—A bank not of issue.

3924. Therefore, in offering an opinion to the Com-

mittee that the Bank of Issue has no power either to extend or to contract its notes without substituting other circulating medium, you have not given that opinion as a matter of experience?—I have not given that opinion at all.

3925. I thought you stated just now, in contradistinction to evidence which has been given to the Committee, that the Bank of England had power to extend its issues of notes at pleasure?—Yes.

3926. You did not give that opinion as a matter of experience, as having been connected with a Bank of Issue?—I have never myself been an issuing banker; perhaps, however, no man in England has had more intimate relations and connection through life with important issuing bankers than I have had, or has had greater means of observing the course of their proceedings.

3927. Still, with regard to the particular practice of issuing notes, you have not had equal experience to two successive Governors of the Bank of England, who have been governors during the operation of the Act of 1844?—I decline giving any answer to that question.

3928. Your Lordship has stated that the Act of 1844, the object of which was to make paper money conform to the variations in the metallic currency, has been successful?—I have.

3929. What would be the effect supposing we had an entire metallic currency; assuming that the circulation of coin in the country is now 70,000,000*l.*, as has been stated before this Committee, and that the notes now in circulation are 40,000,000*l.*, and, to take your own view of the matter, namely, that bullion in the Bank of England is also part of the currency of the country, that the bullion

is 15,000,000*l.*; 70,000,000*l.* of coin and 40,000,000*l.* of notes will make 110,000,000*l.*, and 15,000,000*l.* of bullion will make 125,000,000*l.* altogether; suppose that there was a drain of 5,000,000*l.* of bullion in this country, the effect of that would be to reduce the reserve of the Bank of England to 10,000,000*l.*, would it not?—I cannot go on with the calculation, unless I have it down on paper before me; I dare say that would be so; I am willing to assume it.

3930. If the reserve in the Bank of England is 15,000,000*l.*, and you have a drain of 5,000,000*l.*, it will reduce it to 10,000,000*l.*, will it not?—We need not go into particular figures; the principle is perfectly clear. If there is a drain of bullion, that bullion is obtained only by paying notes into the Issue Department; those notes are cancelled, and to that extent the money of the country is diminished.

3931. Will your Lordship be good enough to inform us in what respect the money of the country now, notes and gold together, varies in relation to a metallic currency differently from what it did before 1844?—Now, the quantity of notes out must necessarily vary in every case with the quantity of bullion; and if 1,000,000*l.* of bullion is taken out of the Issue Department of the Bank of England for foreign export, there must be 1,000,000*l.* of notes cancelled. Before 1844 that was not necessary.

3932. There must be 1,000,000*l.* of notes cancelled in the Bank of England?—Cancelled in the Issue Department.

3933. But having no relation to the notes in the hands of the public out of the Bank?—Yes, having a very great relation; you cannot cancel 1,000,000*l.* of notes in any form whatever which will not affect most powerfully the action of the circulation throughout the whole kingdom.

3934. Out of the Bank of England?—Everywhere.

3935. Supposing that we had a purely metallic currency, and no notes at all, and that there was a drain of bullion, which in the same manner would be satisfied from the reserve of the Bank of England, would it in any way act upon the metallic coin in the country?—If you assume that the whole money of the country is metallic, and if you assume that a certain portion of that metallic money is taken out of the country, then there is a diminution of the money of the country to that extent; if that diminution takes place entirely out of the reserve existing in any banking establishment, provided the condition of that reserve is made known to the public, the action will be very powerful and very salutary.

3936. But the quantity of coin circulating in the hands of the public will not be diminished by a drain upon the reserve of the Bank of England in the event of an adverse foreign exchange?—There is no doubt that the bullion lying in the issue department of the Bank of England is kept more immediately to meet the effects of a foreign drain, to deal with foreign exchanges. No doubt, the pressure through the foreign exchanges will in the first instance be met by the bullion which is in the coffers of the Issue Department of the Bank of England, and it is only under a very severe drain, and under peculiar circumstances, that it will exercise a powerful influence over the coined metal which is circulating throughout the country; but the diminution of the Bank notes in the hands of the Bank of England paid in to the Issue Department for the purpose of obtaining the bullion, when known to the public, will produce all the effects which are necessary for the due regulation and management of the money of the country. The moment the

public know that the money in the hands of the Bank of England is diminished seriously, there is a very salutary and very protective influence exercised upon credit, upon confidence, and upon all those progressive stages through which rectification arises.

3937. The immediate effect will be to induce to an increased rate of discount?—A diminution of money in the country will tend to raise the value of it.

3938. But an increased rate of discount will not necessarily diminish the amount of money in the hands of the public, will it?—No; I do not know that an increased rate of discount will necessarily diminish the amount of money in the hands of the public; but I know this, that a diminution of the amount of money in the country will make the remaining money more valuable, and that increased value of the remaining money of the country will very soon rectify the exchanges, and bring back the quantity which we want in order to re-establish the monetary equilibrium which has been disturbed. [The principle cannot be more clearly stated than in the words of the "Report of the Lords' Committee, 1819"—p. 16. "As it would be impossible for any person to draw bullion from the Bank, except in exchange for bank notes, no demand could be made upon the Bank to any great extent for gold without occasioning a scarcity in the currency, which would tend to raise the value of those notes, and to remove the temptation to present them in exchange for bullion."]

3939. That increased value may be seen by an increased rate of interest?—It may be seen by a hundred different effects.

3940. The immediate effect will be an increased rate of discount?—In all probability.

3941. Practically, in the Bank of England that is the way in which it exhibits itself?—Yes.

3942. Therefore, although there will be a diminution of the reserve of the Bank of England, and a consequent increase in the rate of discount, there need nevertheless be no diminution of money in the hands of the public for the purposes of trade?—You had better meet the question fairly and straightforwardly. The question really is, whether a diminution of the money in the reserve of the Banking Department of the Bank of England is intimately connected with all the purposes which money performs in the country. The money lying in the Banking Department of the Bank of England is essential for all the purposes which money performs in the country, and any diminution in the amount of money lying in that department produces all the effects which a diminution in the amount of money in any form can produce.

3943. It will not contract the circulation of money in the hands of the public?—Of course money taken out of the reserve of the Bank of England is not money taken out of any other place; it is a truism which it is not necessary to state or to discuss. But the fact of a diminution of the money in the Banking Department of the Bank of England will produce, as regards all the circumstances which are to regulate the exchanges, quite as great an effect, and I believe a greater effect than if the money were taken from any other part of the kingdom.

3944. Will you have the goodness to inform the Committee what you regard as the reserve of the Bank of England?—What is now published in the accounts as the reserve; that portion of the notes issued by the Issue Department which is not elsewhere than in the Bank of England.

3945. Those notes represent merely a part of the bullion in the Issue Department, do they not?—They do not represent the bullion in the Issue Department in any other sense than any other notes represent it. 25,000,000*l.* is the amount of notes now issued by the Issue Department; and in the Issue Department there is 10,000,000*l.* or 12,000,000*l.* bullion. That 10,000,000*l.* or 12,000,000*l.* of bullion represents, if you choose to use that word, which is a very bad form of expression, all the notes which are out, but it does not represent one note more than another note.

3946. Do you conceive that Bank of England notes are a legal tender in the Bank of England?—What they may be legally, I do not pretend to know. I am no interpreter of Acts of Parliament; I know what they ought to be in principle; and I presume that the Act conforms to the principle. The principle is quite obvious and clear. A Bank of England note is intended to be a legal tender between all parties except the party who issues it. The party who issues it is bound to pay in gold whenever it is required, and therefore it would be completely destructive of the thing to say that on his part it was a legal tender; but it is in principle a legal tender on the part of everybody else.

3947. There is no doubt that it is a legal tender in any other bank in London?—I am not going to discuss a question of law, because I am no lawyer; but it is the question of principle which I apprehend you are called upon here to discuss. The principle is perfectly clear and distinct; bank notes are intended to circulate, and perform all the functions of money throughout the whole of the kingdom internally, and they are therefore made a legal

tender, or ought to be made a legal tender on the part of all persons *inter se*, except the issuer; that issuer is the Government acting through the Issue Department; that department cannot make the Bank note a legal tender from itself, because it is bound to pay the note in gold to any applicant; but on the part of everybody else, it certainly is, or ought to be, a legal tender. As regards the Banking Department of the Bank of England, the Bank note, by established usage and custom, has beyond all doubt the full efficiency of a legal tender, let the technical effects of the words of the Act be what they may.

3948. There is no doubt whatever that any bank, whether a bank of issue or a bank of deposit, except the Bank of England, can at the present moment discharge its obligations in Bank of England notes?—No doubt about it.

3949. There can be no doubt that with country bankers and with London bankers all their obligations can be discharged by Bank of England notes?—None whatever.

3950. Does not it make a great distinction in the character of the Bank of England note, looked upon as the reserve of a banker, whether it be an instrument with which he can discharge his obligations according to law, or whether it be an instrument which he cannot offer in discharge of those obligations?—No doubt the note of the Bank of England being a legal tender, is a much more efficient means of discharging obligations than it would be if it was not a legal tender. The Bank notes tendered by the Banking Department will practically discharge every obligation. This being the case, it matters little whether the Bank note possess that power through universal and undisputed usage, or through the distinct enactment of law.

3951. Supposing that a creditor of the Bank of England goes to the Bank of England, and makes a demand for 500,000*l.* of deposit, are they not obliged to pay that in gold if he requires it?—It is not worth while to raise such a question. Legally, I do not know whether they are bound to pay it in gold or not; but practically it is not a matter of the slightest consequence; because it is simply whether A. or B. shall require the gold. A person goes to the Bank of England (when I speak of the Bank of England, I always speak of it as a bank) with drafts upon the Bank of England for 500,000*l.*; the Bank of England tenders 500,000*l.* in its Bank notes. The man says, “No, I will not take those; they are not a legal tender.” What is the difference? If they are a legal tender, the man is obliged to take the notes, and he goes into the next room, and demands gold from the Issue Department for them; if they are not a legal tender, instead of his going into the other department, a clerk of the Bank of England goes there, and gets the gold; it is not worth discussing.

3952. Looking at the Bank of England, therefore, as an establishment, is it not practically the case that the bullion in the Bank of England constitutes the only reserve which they hold against their liabilities?—There is no bullion in the Bank of England; the bullion is all in the Issue Department.

3953. To whom does the Issue Department belong?—The Issue Department belongs to the State.

3954. Who obtains the profit derived from the Issue Department?—It is not a question of profit. [The question is—with whom rests the legal power over the bullion in the Issue Department, and with whom rests the right

to draw it out and dispose of it?—Clearly with the holder of the notes and with no one else.] The Bank of England, in a certain form, is paid for discharging the mechanical duties of working the Issue Department as the State has ordained that it shall be worked; it has no discretionary power; it is a mere mechanical instrument to do a mechanical duty in carrying out the positive provisions of the law; for that it is paid, and the form in which it is paid, is by a certain proportion of the profit, derived from the issue, the Government taking much the larger portion, and leaving to the Bank, under a very peculiar form of arrangement, the remaining portion.

3955. The whole risk connected with the holding of bullion and the issue of notes is taken by the Bank of England?—Yes, you may so state it; I do not mean to say that it is strictly correct, but I will say, generally, that the Bank of England contracts to do the business of the Issue Department on behalf of the State.

3956. It is the Bank of England which purchases bullion at a fixed price, and obtains the profit of the purchase?—It is the Issue Department which receives the bullion at 3*l.* 17*s.* 9*d.*, and issues it at 3*l.* 17*s.* 10½*d.*

3957. And the difference goes to constitute part of the profit of the Governor and Company of the Bank of England?—The difference goes towards that fund, out of which the expense of working the establishment is to be paid, out of which the demands of the Government, on behalf of the State, for a large share of the profit is to be paid, and out of which the Bank of England is to be remunerated for doing the mechanical business.

3958. If, by any accident, a portion of the bullion were destroyed by fire or otherwise, would the loss fall

upon the Governor and Company of the Bank of England, as a Corporation?—I do not know.

3959. There is nothing, that you are aware of, in the Act of 1844 which would so separate the Governor and Company of the Bank of England from the Issue Department as to release them from any loss of that nature?—No; I have always looked at the Act of 1844, in its main predominant character, as a measure for making the paper notes conform in amount strictly to the fluctuations of the bullion; I am not at all prepared to discuss the Act of 1844 as having reference to anything beyond that.

3960. You do not, then, agree with the witnesses who have been before this Committee, that the real reserve of the Bank of England is the bullion held by the Bank of England?—If you ask me whether I consider the bullion held by the Bank of England as its real reserve, my answer is, that the Bank of England holds no bullion; the bullion lies in the Issue Department, ready to meet the demand of any person bringing notes there to claim it. The Bank of England may itself go and claim it, if it thinks proper, for the notes which it holds. [The bullion in the Issue Department is held at the order and disposition of the note holders. They, and they only, have any right over it, or can claim it. The Bank of England has no power over the bullion, except in its character of a note holder.]

3961. With respect to the separation of the departments, which took place under the Act of 1844, it has been already stated, I think, that the Bank kept its accounts in that form prior to 1844; can you point out any essential change, either in the liabilities or in the

means of meeting those liabilities, in consequence of the altered form of accounts?—Of course an alteration in the form of account will not alter the absolute amount of liabilities, or the absolute amount of assets; but it may be a most important and a most useful alteration in the relations which exist between them, and in the mode of management and regulation which arises out of those relations. That is precisely what the Act of 1844 has done, most fortunately for the interests and the safety of the country. The form in which the accounts may be kept at any time for the private information of the Directors of the Bank of England, is one thing; the form in which the accounts may be published by authority, for the instruction and guidance of the public, is a totally different thing. It is in this latter respect that the Act of 1844 worked so beneficial a change.

3962. The object of that separation was, as I have understood your former answer, to secure the convertibility of the note, and its uniformity of value with the metallic circulation?—The object of the Act was to make paper notes conform in all their fluctuations of amount to the fluctuations in the amount of the bullion; and through that conformity it was confidently believed, and the result has verified that confident belief, that a protection to the bullion store, and to the capability of the country, under all circumstances, to maintain specie payments, would be effectually secured.

3963. You do not, then, agree with those witnesses who have stated that the essential thing for the Bank of England, or any other bank of issue, is to maintain a sufficient reserve of bullion with which at all times to secure the payment of their liabilities, without reference

to the state of account in which that is placed?—The ambiguity of that question consists entirely in the word “sufficient.” If you assume that the store of bullion is at all times sufficient, you assume that every object is accomplished. But the difference between the Act of 1844, and the state of things previous to the Act of 1844, is this, that before 1844 you had no distinct and specified means and processes by which that sufficiency was certain to be maintained. Under the Act of 1844 you have a clear and distinct provision of law which secures to the country the absolute certainty that that sufficiency of bullion will be maintained. That is the difference between the state of things before and after the Act of 1844, and constitutes the great merit of the existing statute.

3964. The merit of the Act of 1844, then, is, that the Bank of England is obliged to maintain as much bullion above the 14,000,000*l.* of securities as shall represent the amount of notes which it issues?—I again state that the Bank of England, always understanding by that expression the Banking Department, is not subjected by the Act of 1844 to any such operation; the Bank of England has nothing to do with the bullion; the Act of 1844 has prohibited the Issue Department from issuing any notes which are not conformable in their fluctuations of amount to the fluctuations in the bullion.

3965. And therefore it is prohibited from issuing notes beyond 14,000,000*l.*, excepting to the amount of bullion which it may possess?—Undoubtedly.

3966. That is the limit?—That is the limit.

3967. Therefore, the merit of the Act is, that it renders it imperative upon the Bank to hold a certain amount of bullion in relation to its circulation which it

was not compelled to hold before?—I am sorry to trouble the Committee with repetitions; but the effect of the Act of 1844 is this, that it compels the Issue Department to put forth an amount of notes, which shall fluctuate as the bullion in the Issue Department fluctuates, and not to put out any further amount of notes.

3968. Would it not have the same effect if the regulation which has been adopted with regard to the colonial banks were imposed upon the Bank of England, that, without separating the departments, the Bank of England should be compelled at all times to keep a portion of bullion which should bear a fixed relation (the same relation as at present, if it was thought proper) to its liabilities, from time to time?—I am not quite sure that I understand the effect of the question, but I totally object to the mingling of the question of securities with the question of bullion; it is distinctly essential to the safety of the monetary system that nothing should interfere in the least to modify or dilute the plain and direct relation between the amount of notes issued and the amount of bullion deposited. You speak of the Bank of England being compelled at all times to keep a certain portion of bullion; but how do you propose to compel the Bank to do this? What security shall we have that this will be done, if we abandon the security now provided by the Act of 1844? [We have had abundant experience of the unfortunate results, which must arise from the system thus suggested of combining in one account all the liabilities of the Bank; those which arise from the issue of paper money in common with those which are connected with its banking operations, and setting against these in one item all its assets, the bullion, which ought to be a

special reserve to secure the convertibility of the notes in common with the ordinary banking assets. This fusion of the departments suspends the direct and exclusive relation between the fluctuations in the amount of bullion and in the amount of paper money, and affords full opportunity for a prolonged drain of bullion without any corresponding contraction of the amount of paper money. This has been the practical effect of this system of accounts on repeated occasions, and hence have arisen almost all the monetary crises to which we have been exposed. Nor is this result peculiar to this country. It depends upon a great principle, and therefore it is universally true. Mr. Webster, drawing his conclusions from the difficulties by which the monetary system of the United States had been embarrassed, strongly expresses his conviction of the danger which must arise from a system of accounts which blends all the liabilities of a bank, whether arising from an issue of notes or from deposits in one total, and therefore necessarily subjects all the assets, bullion as well as securities, to a common obligation. "It is too common with banks, in judging of their condition, to set off all their liabilities against all their resources. They look to the quantity of specie in their vaults, and to the notes and bills becoming payable, as means or assets; and with those they expect to be able to meet their returning notes, and to answer the claims of depositors. So far as the Bank is to be regarded as a mere bank of discount, all this is very well. But banks of circulation exercise another function. By the very act of issuing their own paper, they affect the amount of currency. In England the Bank of England and in the United States all the banks expand or contract the

amount of circulation, of course, as they increase or curtail the general amount of their own paper. This renders it necessary that they should be regulated and controlled. The question is, by what rule? To this I answer, by subjecting all banks to the rule which the most discreet of them always follow—by compelling them to maintain a certain fixed proportion between specie and circulation.” “Sub-Treasury Speech,” p. 12.

A certain fixed proportion, it will be observed, is to be maintained between specie and *circulation*, not merely between specie and liabilities generally. It is in this distinction that the value and efficacy of the rule consists; and it is for the purpose of maintaining and enforcing this distinction that the separation of the accounts, which regard circulation from those which regard deposit business, becomes expedient, indeed essential to the safety of the monetary system.]

3969. I understand you to be of opinion that the Issue Department in the Bank of England at present is as distinct from the Bank of England itself, as if it were a Government department totally unconnected with the Governor and Company of the Bank of England?—As distinct, for all purposes which have reference to the principles affecting the regulation of the exchanges.

3970. Then when you stated in your former evidence that “no banker or private individual ought to be allowed to issue such tokens or certificates,” meaning bank notes, “any more than they are permitted to issue the coins of the realm.” and that “no share of such privilege ought to be conceded in any form to banks or to private individuals,” and that “all profits arising from the issue of paper certificates, that is, bank notes, in place of coin of

intrinsic value, ought to be appropriated to the public exchequer, and ought not to be diverted to the benefit of banks, or any other concerns;” do you consider that those conditions apply to the Issue Department as at present constituted?—I consider that those conditions are fulfilled by the regulations of the Act of 1844.

3971. Then you do not consider the notes as being issued by the Governor and Company of the Bank of England, or the profit derived from those notes as being received by them?—No. I consider that the profit derived from the paper issues of this country, is appropriated, first, to paying the expenses of managing the business, and that the balance which remains over goes to the Government. If the Government has not its fair share of the profit, that is an affair of detail for the Chancellor of the Exchequer to look to.

3972. Then you do not consider it a privilege conferred upon the Bank of England to derive profit from the issue of paper?—I have already explained my view upon that point, that the principle at the bottom of the Act of 1844 is quite distinct; that the profit arising from the paper issue is appropriated by the Government. The Government makes a certain bargain with the Bank upon the basis of that principle, and it claims, and I believe claims with perfect correctness, that in that bargain it leaves of the profit of the paper issue only that portion to the Bank of England which is a just remuneration for the trouble and risk of working mechanically that department.

3973. The Bank Act of 1844 refers as well to the Bank of England as to the regulation of the country banks; do you conceive that notes unissued in the hands

of a country banker, as notes unissued by the Bank of England, constitute any portion of the circulation?—I have already stated that the whole issue of the country banks is very anomalous; it is very peculiar and unsatisfactory. It is very easy to state the principles which apply to the question, but no doubt some of the facts will be in an ambiguous position. The power of issue vested in the country banker ought to be compared with the Issue Department, not with the Banking Department, of the Bank of England. All the confusion arises from not preserving, in thought as well as in account, a clear distinction between the function of issue and the business of banking. I consider, as a matter of principle, that that constitutes the money of the country which the issuer has the legal power of issuing.

3974. Whether it is out of his hands or not?—Yes.

3975. Then when the published issues of the country banks are below their legal limit, you do not consider that, in consequence of that, the circulation of the country is contracted?—As a matter of principle, I think that we must hold that the quantity of notes which a banker has the power of issuing, constitutes part of the money of the country. But no doubt the state of the country circulation is so anomalous, that that principle is placed in an ambiguous position with regard to that amount of the power of issuing which the country bankers do not issue, just in the same way as if any foolish person chose to lock up 1,000,000*l.* of bank notes, or to paper his walls with them, we must still hold them to be a part of the circulation or money of the country, until we had some authentic record that they were deprived of the power of acting in that capacity.

3976. The country circulation constitutes about one-half of the whole 40,000,000*l.* of the aggregate paper circulation, does it not, including Scotland and Ireland?—It possibly may do so; I do not know.

3977. Then, so far as the Act of 1844 carries out your views with regard to the Bank of England, as you have described it, it is defective, inasmuch as it does not apply that pressure in any respect to the remaining half of the circulation?—No doubt the law is defective, in so far as it does not bring all the country paper issued under one general regulation, but it is not defective in its essential principle. It has placed a positive limit upon the amount of those issues, and therefore it has fully accomplished its main and grand purpose, namely, that all the fluctuations in the amount of the paper money of the country should be in strict conformity with the fluctuations in the amount of the bullion; that being accomplished, any subordinate omission I think of very secondary consequence.

3978. It has done nothing to secure the convertibility of the country notes?—We must take care of the meaning of the word “convertibility.” Do you mean the certain convertibility into bullion, or do you mean the solvency of the issuers generally?

3979. I mean payment on demand?—Payment in gold?

3980. Payment in gold on demand?—It has secured it in the form which I have already stated; that it has secured such an amount of paper money in this country as shall render it impossible for the bullion reserve to be drained out of the country. But no doubt it is quite possible that a country banker may fail, and not be able to pay his notes.

3981. You stated that the imperfection of the Act in respect of the country issuers you thought was gradually becoming less and less, by the diminution of the issues of the country bankers?—I stated that I thought it was becoming less in a variety of ways; that I believe that their issues are gradually, though slowly diminishing, and I am inclined to think that the efficiency of the notes which are out is undergoing a diminution; that the public are becoming less fond of them; that they do not perform their functions of money with that activity, and universality, and rapidity, which attaches to the Bank of England note. They are under a sort of paralysis, and that paralysis is, I think, increasing in its effect upon them.

3982. Have you any reason to believe that country notes in local districts circulate less freely than they did before 1844?—I must admit that I have no very positive knowledge upon the subject; that is my impression, but it may not be so; I cannot say.

3983. Your attention was called upon the former day to the fact that the diminution in the circulation of country notes had been about 1,000,000*l.* since 1844?—That was alluded to.

3984. The greatest portion of that amount, namely, 800,000*l.*, has arisen from bankruptcy. You have not seen the paper which contains that information?—I have not.

3985. If that be so, as is shown by a paper before the Committee, the gradual diminution of country notes is through the medium of insolvency?—A bad medium, no doubt; I am glad to get rid of them in any way.

3986. While the Bank Act of 1844 with regard to the

issues of the Bank of England took every security for the convertibility of the note and the safety of the public, it took no security whatever with regard to the other half of the circulation, namely, that of country banks?—I consider that the main object and purpose of the Act of 1844 had not reference to the security of the note between the different members of the country, but that it had reference to the security of the note in the sense of taking care that the aggregate amount of the paper money of the country should never be carried to such an extent that it could admit of the bullion being drained out. All the other considerations were quite subordinate to that, and undoubtedly with regard to the country issuers there is no security for the solvency of the issuers taken by the Act of 1844, any more than there was previously; it has not dealt with that branch of the subject.

3987. You expressed an opinion on the former day, and you have expressed it on former occasions, that the different periods of crisis and commercial convulsions have been very much attributable to an abuse of the powers of bankers in issuing their notes?—Yes; I have no hesitation in saying that I am prepared to trace every monetary crisis which this country has gone through, crisis by crisis, and I shall be very much surprised (if the Committee will give the time necessary to listen to it) if it does not become a matter of absolute demonstration, that in every instance the absence of the provisions of the Act of 1844 was intimately connected with all the evils and dangers which arose; and that since the Act of 1844, the escape from those dangers may be distinctly traced to the provisions of that Act. I am quite prepared to go into that question, if the Committee think that it is really important in the

matter ; it will take a considerable length of time, but the evidence in support of the successful operation of the Act of 1844 seems to me to be perfectly clear, distinct, and overwhelming, without going into that question ; it seems to be only accumulating evidence, of which there is an abundant weight already.

3988. Do you consider that it was in consequence of injudicious confidence given by banks of issue through their notes, which they would not have given if they had not issued notes, that speculation was encouraged?—I mean that it was the omission to contract the paper money as the bullion went out, which brought about the crisis of 1783, and which brought about the crisis of 1797. I mean to say, that it was a distinct absolute increase of the amount of the circulation which brought about the crisis of 1825, and to a considerable extent that from 1833 to 1837, and that in every one of them the non-diminution of the paper money as the bullion went out, was the immediate and intimate cause of those crises ; and that the Act of 1844 has rendered it impossible that those evils arising from that cause can again recur. And I mean to state distinctly, and I am prepared to prove it, so far as that which depends upon moral considerations admits of proof, that the non-suspension of specie payments in the spring of 1847 may be distinctly traced to the provisions of the Act of 1844 ; and that had the blended accounts which are now contended for been then in existence, there is the strongest ground to believe that we should certainly have suspended specie payments in the spring of 1847.

3989. In consequence of an abstraction of bullion?—Of course we should not suspend specie payments except through an abstraction of bullion.

3990. Then you are of opinion that it was by the issue of notes rather than by an advance of capital, independent of notes, that these periods of speculation were fomented, and the injurious consequences arising therefrom produced?—I do not think that any very great mischief is ever fomented or produced by real advances of capital.—[Excessive speculation, and the injurious consequences arising therefrom, are generally the result of a fictitious state of credit, produced, or at all events supported or prolonged by an undue issue of paper money, or an improper extension of banking credits. It is hardly possible that general or extensive mischief can arise from real advances of capital. The advance of capital in any particular case may be injudicious and involve loss to the parties immediately concerned; but that appears to be the limit of the mischief. The inconvenience arising from the misapplication of real capital must be particular and limited; general embarrassment in trade is invariably connected with a preceding expansion of fictitious credit in its various forms,—one of which forms, previous to 1844, was the issue of paper money not founded upon a corresponding increase of real money, that is, of bullion. But it is necessary to draw a clear distinction between commercial pressure and the dangers to which our monetary system is subjected. The management of the circulation, or the proper regulation of the amount of the paper issues, with the view of maintaining under all circumstances the true metallic value of the paper note, is the real purpose of the Act of 1844. The state of speculation in the trading world, and the consequences arising therefrom, are only indirectly connected with this question; in so far as a proper regulation

of the amount of paper money must tend, more or less, to exercise a wholesome restraint upon the undue expansion of credit, and the spirit of speculation which arises from it. Commercial pressure usually has its origin in over-trading; and this over-trading seldom proceeds from the excessive application of real capital to commercial operations, but from undertaking those operations to an extent beyond that which there is sufficient capital to support. Monetary danger arises from maintaining the money of the country, through the process of paper issues, at a higher amount than could be maintained if the money were exclusively metallic, until the exhaustion of the metallic portion of the money is carried to a point which endangers the convertibility of the paper money. During the process of issuing more paper money to fill up the void created by the continual export of metallic money, a fictitious state of credit, no doubt, is created, and the trading world is misled by a false appearance of an abundant command of capital, the delusive character of which at once becomes apparent, as soon as the convertibility of the paper issues is brought to the practical test.]

3991. Are you aware that in some of the crises to which you have referred, particularly in 1825, the failure amongst bankers was as much amongst banks of deposit as amongst banks of issue?—Yes, there were very extensive failures of both classes.

3992. And are you aware that in point of fact the crisis commenced by the failure of London banks which were not banks of issue?—It is perfectly possible.

3993. In that case it must have been caused by injudicious advances of capital, and not by any action upon

the issue of notes?—I am speaking now of the exhaustion of the bullion. I say that whatever was the extent of injudicious banking, or whatever was the extent of mercantile failure, had the Act of 1844 been in operation, it would have been impossible that the bullion could have been exposed to the diminution which took place in 1825.

3994. Failure might nevertheless have taken place amongst bankers?—I do not at all say that under the Act of 1844 you are not exposed to failures amongst bankers, or amongst the mercantile community; but I say that, whatever be the extent of failure, whatever be the extent of misconduct or mismanagement by bankers, or by the mercantile community, the maintenance of specie payments can never be endangered; that is my defence of the Act of 1844, which I defy your ingenuity to impugn.—[My opinion upon this point was clearly stated in the year 1840, and now, with the additional experience to be derived from seventeen eventful years, I see no reason to modify that opinion in any respect. “It is not intended to countenance the opinion that there can be no commercial pressure, except in connexion with a faulty state of the circulation. The truth probably is, that if the paper varied with the bullion, there would be no danger of non-convertibility, except from internal discredit; and that commerce, though still exposed to fluctuations, would on the whole be less exposed to fluctuations than under the present system.”—“Thoughts on Separation of the Departments, 1840.”]

3995. Do you think that the same consequences would have happened in 1847 which did happen, if the Bank of England had followed the same discreet course in their

business which they have in the last two years, and had raised the rate of interest at an earlier period?—The practical merit of the Act of 1844 is that it compels the right course to be pursued ; it renders it inevitable. If you assume that under a discretionary action the same right course would have been pursued then under that assumption the consequences would be identical ; but the very basis of the legislation of 1844 is, that universal experience in this country and all other countries has shown that with regard to the regulation of paper money discretionary action cannot be safely trusted.

3996. In 1847 a great decline took place in the early part of the year in the amount of bullion, without any corresponding increase in the rate of interest. Did not that lead to a great aggravation of the drain in the latter part of the year?—If we are going into the discussion of 1847, I am quite ready to go into it. I should have liked to have treated it as the last in a long series, because it is the last link in the chain of evidence, though it is the strongest link. But I am perfectly ready, in order to save the time of the Committee, to take the question of 1847 by itself. What I say of 1847 is this, that during the spring of 1847 there was a heavy drain upon the bullion, in the Issue Department of the Bank of England ; that notwithstanding that drain upon the bullion, the Bank kept up its advances ; that this was effected by a continuous decrease of the Bank reserve, and that that process would have gone on until the whole bullion was exhausted, or had approached so nearly to exhaustion, that public panic would have arisen, had it not been that in 1847, consequent upon the separation of the departments, we fortunately had an additional item in the published

accounts, which set forth the state of the banking reserve, and the public, seeing the rapid exhaustion of the banking reserve became alarmed. I myself, seeing that exhaustion remonstrated personally with several of the Bank Directors, at their not raising their rate of interest, and I put letters into the newspapers reiterating those remonstrances ; and at last it was raised, but it was only raised because the public became frightened at seeing the exhausted state of the banking reserve ; the whole course pursued at that time clearly showed that had there not been the positive provisions of the Act of 1844 behind the Bank Directors, they would not have had the moral firmness to resist the demands and wants of customers, which we are told are to be the safe regulating principle of a banker ; they would not have had the moral firmness requisite to resist that pressure, and we should have been carried actually to the suspension of specie payments. As it was, the drain of bullion was permitted to continue without the proper check too long, the rise in the rate of discount was too long delayed, and had there not been at that time that account which the Act of 1844 has rendered necessary, viz., the account of the state of the banking reserve, there would have been nothing whatever to preserve us from the suspension of specie payments.

3997. You have stated in the former part of your answer, that that which created your anxiety was the rapid diminution of bullion?—I meant banking reserve.

3998. That was accompanied by a corresponding diminution of bullion?—Yes ; I presume it must have been.

3999. There was nothing in the operation of the Act which compelled the Bank of England to act discreetly in the early part of the year, when the drain first com-

menced, and to raise their rate of discount at a time when it would have been wise to have done so ; but I understand you, that it was from the repeated demands on the part of the public, that the Bank of England took that precaution at last ?—There was not in the Act that which compelled the Bank necessarily to begin raising its rate of interest as soon as it was desirable and right that it should be done ; but there was in the Act that which compelled it to raise the rate of interest much sooner than it would have been compelled to do in the absence of the Act of 1844. The difference is this, that the pressure under the Act of 1844 comes upon the banking reserve, and the trial is taken upon the diminution of the banking reserve, instead of being taken upon the exhaustion of the bullion ; and in addition to that, the regulation is, by necessary force of law, clearly and distinctly defined ; whereas before the Act of 1844, it was a regulation springing out of a panic feeling on the part of the public, which was irregular as to the time of coming into operation, uncertain as to the extent or intensity of its operation, and most dangerous in its consequences.

4000. I find that the banking reserve as early as the 10th of April had fallen as low as 2,833,000*l.* ?—Yes.

4001. The bullion having fallen at the same time to 9,876,000*l.* ?—Yes.

4002. And I find that the Bank of England had up to that moment, in the face of a rapid drain, to that point maintained the rate of discount at 4 per cent., and only at that moment raised it to 5 per cent. ?—If I might become the examiner, I should like to ask what compelled the Bank, which had evidently shown a great previous reluctance to raise its rate of interest, then to raise its rate

of interest ; what would there have been to have compelled the Bank to that rise in the rate of interest if the Bank reserve had been a suppressed item in the account? It was the fact that the Act of 1844 had added to the previous accounts the Bank reserve, and it was the knowledge that the Bank reserve had fallen from about 10,000,000*l.* to about 2,530,000*l.*, which produced such an effect upon the public mind that the Bank were then enabled to take courage, and to raise their rate of interest.

4003. Will your Lordship observe that at the same time, from the end of December down to April, the bullion itself had fallen from 15,000,000*l.* to 9,000,000*l.* ; was that not a sufficient indication to the Bank of a severe drain upon its reserves, and a warning that it ought to take some means to arrest the progress of that drain?—It ought to have been a sufficient warning ; but we know, by all preceding experience, that it never had been ; we know by all preceding experience that the Bank had uniformly allowed its bullion to be reduced to a much lower amount than that before it took the necessary steps of protection.

4004. If your Lordship has the accounts before you, you will observe that the Bank allowed the drain to proceed with very little intermission until the month of August before any advance was again made in the rate of interest?—I have not the account in details ; I will state my case, and if it is not a clear and a safe one, it can be pulled to pieces ; but, as I understand it, in September 1846 the bullion stood at 16,000,000*l.*, and the Bank reserve at 10,000,000*l.* ; in April 1847 the bullion had come down to 9,000,000*l.*, and the bank reserve to 2,700,000*l.* Now, I say, in the face of that account, that that diminution of bullion, if it had stood alone before

the public, would not have excited apprehension on the part of the public, nor would it have compelled the Bank to measures of precaution; and I make that assertion founded upon all past experience to that effect. But what did compel the Bank and the public to measures of precaution? It was the instruction conveyed by the new item in the account, and produced by the Act of 1844, viz., the Bank reserve, which showed that that had undergone a diminution from 10,000,000*l.* to 2,700,000*l.* In the face of that fact the public became alarmed, confidence was shaken, credit was diminished, the efficiency of the existing circulation was diminished, the Bank had moral courage given to it, and, under all those circumstances, at a late hour no doubt strong protective measures were resorted to, and the bullion was protected from further diminution. I say that is distinctly traceable to the provisions of the Act of 1844, and that without those provisions, if we are to believe that what had invariably taken place before would again have taken place then, we should have been carried on until the bullion was exhausted.

4005. Is not your Lordship aware that from the time which I have just quoted, in the month of April, when the bullion was reduced to 9,800,000*l.*, and the reserve to 2,800,000*l.*, and when the advance in the rate of interest was made at 5 per cent., the Bank reserve, instead of diminishing after that period, rose very considerably; and that when the rate of interest was raised to 5½ per cent. the Bank reserve of notes was 3,946,000*l.*, and subsequently advanced to 4,476,000*l.*, while the bullion had suffered a further diminution to 8,915,000*l.*, and it was found necessary to raise the rate of discount, in the face of that increased reserve, but diminished bullion to 5½

per cent.?—I am not aware of those facts; but that is perfectly possible. The Bank may have allowed its banking reserve to be reduced to a very improper and exhausted condition, and in the measures necessary to replenish that banking reserve, and to restore it you may be undoubtedly compelled to go on raising your rate of interest, although your bullion may be coming in. Bullion now and then comes in under a very precarious and doubtful state of the exchanges.

4006. When the rate of discount was raised to 5 per cent., the banking reserve was 2,800,000*l.*, and the bullion 9,800,000*l.*; that was on the 10th of April, 1847. The reserve of notes increased from 2,800,000*l.* to 3,900,000*l.* and subsequently to 4,400,000*l.* in the face of a further diminution of bullion to 8,900,000*l.*, when the rate of discount was raised to $5\frac{1}{2}$ per cent., notwithstanding the increase of reserve; but in the face of a decrease of bullion, you consider the notes in the Banking Department as a safe indication of the policy of the Bank in raising or diminishing its rate of interest for the amount of bullion in the Issue Department?—I think there is a great ambiguity arising from the phrase of the Bank raising or lowering its rate of interest. The Bank has no arbitrary power of raising or lowering the rate of interest; the Bank is obliged to conform to the natural rate of interest; when the amount of money is diminishing, there will be a tendency to an increase in the rate of interest, and it is the necessary condition of the Bank to conform to that. She may hold out a little too long, in which case she makes a great mistake, but it is of a very temporary kind, generally speaking; the Bank must conform to the rates of interest, and many fallacies arise from the assumed

power of the Bank of her own discretion to raise or lower the rate of interest ; she has no such power.

4007. Admitting that it is perfectly true that the Bank has no power to raise the value of money, or the rate of discount in the market, yet its own act following the rate sooner or later, it must be by its own act raising its own terms of business for the purpose of protecting its own reserve, though it may be in conformity with the general value of money in the market?—The Bank in some respects is in a peculiar position ; I believe it will be very often found that the demands for discount upon the Bank, rather increase upon a rise in the rate of interest ; but that is only because the demands for discount in other places very likely have diminished. The real principle, however, at the bottom is, that as the money in the country is diminished by a foreign drain, the value of what remains is increased, and that increase in the value of what remains will check the drain, and ultimately bring back the money of the country to its proper equilibrium with that of other countries.

4008. Then do you think that if the Bank of England in 1847 had taken earlier precautions, and raised the rate of interest much sooner, and much more decidedly, than it did, it would not have averted in a great degree the crisis which followed in the months of September and October of that year?—I think that if the Bank had conformed immediately to the rise in the rate of interest which was taking place through the abstraction of money, she would have obviated a great deal of the pressure which took place in the spring of 1847.

4009. And the subsequent greater pressure in the autumn of 1847?—The pressure in the autumn of 1847

was very intimately connected with extensive mercantile disasters, and the destruction of confidence in that way.

4010. Still it showed itself by a great demand upon the resources of the Bank?—Yes.

4010*. During the last two years we have had a period ordinarily existing of pressure upon the capital of the country, and a great demand upon our monetorial resources. If the same policy had been pursued during the last two years which was pursued in 1847, do you believe that we should have got through so well?—I believe that the Bank during the last two years has been managed, as nearly as human affairs can be, perfectly, and that if there had been the same firmness in 1847, it would very materially have mitigated some of the evils of that crisis. On the other hand, I believe that had the Bank, during the recent period of pressure, delayed in raising her rate of discount, as she did in 1847, considerable inconvenience might have arisen.

4011. Then you agree in the opinion that the timely rise in the rate of interest in the last two years, in the early part of the drain, prevented the drain going to an inconvenient extent, as it did in 1847?—I have not the slightest doubt about it.

4012. Then the difference between the circumstances in 1847 and those of the last two years is very much to be traced to a better management on the part of the Bank of England?—It is to be traced to better management on the part of the Bank of England, to greater intelligence on the part of the public respecting the principles of monetary management, and to the fact that in 1847 the mercantile community were found in a state not so well prepared to meet the pressure as they have been in 1857.

4013. Then it is not to any provision of the Bank Act of 1844 that you attribute either the disasters of 1847, or the more successful management of the last two years?—We must always distinguish between the effects upon the state of our bullion reserve and the safety of our specie payments, and the effects upon the general state of the commercial world. The Act of 1844 was directed exclusively to the protection of the bullion reserve as a certain security for specie payments. At the same time I believe that a due and wise regulation upon that point does tend to mitigate some of the evils which may attend a period of mercantile disaster, but it certainly cannot altogether obviate them.

4014. But the security of our transactions does depend upon the maintenance of our bullion reserve?—The security of our monetary system does.

4015. *Chairman.*] With reference to the phraseology which you consider inaccurate, will you allow me to call your attention to the wording of the Act of 1844: the Act declares, "That from and after the 31st day of August, 1844, the issue of promissory notes of the Governor and Company of the Bank of England payable on demand shall be separated, and thenceforth kept wholly distinct from the general banking business of the said Governor and Company; and the business of and relating to such issue shall be thenceforth conducted and carried on by the said Governor and Company in a separate department, to be called 'The Issue Department of the Bank of England.'" The Act speaks afterwards of the two departments, one the Issue Department and the other the Banking Department, as two departments of the Bank of England. It appears to contemplate the Bank of England as formed

of those two departments. The language occurs in various sections, and at the end of the Act there is a schedule in which the form of account is set out; it is headed "Bank of England," and there are two subordinate heads, one the "Issue Department," and the other the "Banking Department." Under those circumstances, does it not appear to you that the Act of 1844, which is the authentic instrument on this subject, contemplates the Issue Department as a department of the Bank of England, and under those circumstances is it not correct to say that the bullion in the Issue Department is bullion in the Bank of England?—The whole thing seems to me to be a play upon words. It is quite possible, and it is not uncommonly the case, that an individual may carry on two businesses quite separate and distinct in their character, in their nature, and in the principles upon which they ought to be regulated. If that person so carrying on those two businesses was to blend into one account the transactions in those two businesses, he would be guilty of a most improper act. It would lead first of all to confusion; in the second place it would give great facility for fraud, and if such a confusion of accounts was brought before any legal tribunal in this country, they would take it as a necessary presumption that it must have been done from some improper motive, and it is a very just presumption; it is a wrong act, and it is assumed that it is done for a wrong purpose, because it facilitates wrong purposes. The wrong purpose in this case is perfectly obvious. Why are we recommended to abolish the separation of the accounts, and to blend them into one? For no other purpose than to give facility for issuing paper notes which do not strictly, faithfully, and honestly correspond with

the fluctuations of the bullion, and for the purpose of having, at given times, a quantity of paper money afloat, greater than would be the quantity of metallic money afloat, although we call it a paper money convertible into metallic money. Look at the last paragraph in that very clause which you have quoted. "Provided, nevertheless, that the said Issue Department shall always be kept separate and distinct from the Banking Department of the said Governor and Company." It is a mere question of the phraseology of an Act of Parliament. The Governor and Company are to carry on these two different businesses, one with free discretionary power on their own part, and subject to their own personal responsibility as to the consequences, viz., in the Banking Department, but in the Issue Department they are merely mechanical instruments; they have no discretion vested in them; there is a positive order by an Act of Parliament what they are to do; they cannot depart from that order, and they are distinctly enjoined to keep the whole thing separate and distinct; and in that Issue Department, so kept separate and distinct from the Banking Department, they are to do nothing but strictly to execute the distinct provisions and orders of the law. I cannot conceive things more thoroughly distinct.

4016. But in discussing the policy of the Act of 1844, can it be said that we used inaccurate language, if we use the very language of the Act of Parliament, which Act of Parliament describes the Issue Department as the Issue Department of the Bank of England?—In one sense we do not use inaccurate language, if we use the language of the Act of Parliament; but I apprehend that we use the language in a sense in which the Act of Parliament did

not intend that it should be understood. The Act of Parliament distinctly contemplates, and distinctly ordains, that these two things shall be kept as separate and as distinct as any two different concerns can possibly be; that they shall be managed and regulated upon different principles; that in one there shall be free discretion given to the Bank of England, and personal responsibility; that in the other there shall be no free discretion given to it, and a responsibility only to conform strictly to the provisions of the Act. I cannot conceive things in substance, in reason, and in principle more thoroughly and completely distinct, and the only semblance of union of any kind is, that these two concerns are to be administered by the same body.

4017. Still the Act of Parliament considers these two departments as together constituting the Bank of England, as being two departments of the Bank of England. Under these circumstances can it be inaccurate to describe the Issue Department as a portion of the Bank of England?—I do not really wish to discuss a question of language. I mean to say, that it is inaccurate to consider or treat the Issue Department as subject to any principles or any system of regulation at all similar or analogous to that of the Banking Department; that they are to be conducted quite separate and distinct from each other, and that they are to be conducted upon principles perfectly distinct, I might say antagonistic to each other, and that the only appearance of similarity is founded upon the fact that the two businesses are to be carried on by the same body of persons.

4018. I understood you to object to the expression "the bullion in the Bank of England;" whereas you

said that it was not in the Bank of England, but in the Issue Department?—You will recollect that I prefaced all those observations by saying that in my phraseology the Bank of England always means the body carrying on the banking business, and that whenever I speak of anything in the Issue Department, I always speak, or intend to speak, of the Issue Department.

4019. Sir *James Graham*.] I wish to put a question to your Lordship for which, if it is impertinent, you will pardon me, and if you wish me not to press it, I shall not do so. The late Sir Robert Peel was the responsible author of the Act of 1844?—Yes.

4020. Might I ask whether you were politically connected with Sir Robert Peel?—I am exceedingly glad that the question has been put, because it enables me to give an explanation which may be desirable. I had no connexion, political or social, with Sir Robert Peel. I never exchanged one word upon the subject of this Act with Sir Robert Peel in my life, neither directly nor indirectly. I knew nothing whatever of the provisions of this Act until they were laid before the public, and I am happy to state that, because I believe that what little weight may attach to my unbiassed conviction of the high merits of this Act, and the service which it has rendered to the public, may be diminished by the impression that I am influenced by something of personal vanity in this matter. I have no feeling whatever of the kind. The Act is entirely, so far as I know, the Act of Sir Robert Peel, and the lasting gratitude of this country is due to him for the service rendered to it by the passing of that Act. He has never been properly appreciated; but year by year the character of that statesman upon

this subject will be appreciated. By the Act of 1819, Sir Robert Peel placed the monetary system of this country upon an honest foundation, and he was exposed to great obloquy for having so done. By the Act of 1844 he has obtained ample and efficient security that that honest foundation of our monetary system shall be effectually and permanently maintained, and no inscription can be written upon his statue so honourable as that he restored our money to its just value in 1819, and secured for us the means of maintaining that just value in 1844. Honour be to his name.

4021. Then, though there is a great coincidence of opinion between you and the late Sir Robert Peel with reference to the principle upon which the Act of 1844 is founded, before its introduction there was no private communication between you and him?—None whatever. I have never communicated with Sir Robert Peel in any form whatever upon the subject of this Act. My support of the Act is entirely and purely from a genuine conviction that it is founded upon the soundest principles, and that it has produced to this country inestimable benefits.

4022. In the interval between the passing of the Act and Sir Robert Peel's death in 1850, no communication passed between you and him with reference to its effects, or the future policy of upholding it?—None whatever.

4023. Mr. *Spooner*.] Will your Lordship be kind enough to look at the Question No. 3757 in your evidence on the last day; the question is this:—"Did I rightly understand your Lordship to say, that the money was the capital?—No, I said just the reverse; I say that with money, or with capital in the form of money, you can do nothing, you might just as well have a parcel of old iron."

Will you be kind enough to state what idea it was that you meant to convey?—I understood the examiner to be speaking of money as desirable for itself, and not for its power of putting the owner of the money in the possession of real capital. I said that the mere possession of money for itself was as useless as the possession of old iron, and that it was only when it was used as a means of obtaining capital that it became useful to the trader or the man of business.

4024. Your Lordship, in another part of your evidence, has stated that the Bank note is nothing more than a certificate that so much bullion is deposited, and which bullion is to pay that note when demanded?—I stated that the Bank note is a certificate issued against bullion. Of course we cannot say that 26,000,000*l.* of Bank notes are the certificates of bullion actually deposited, when there is only 10,000,000*l.* or 12,000,000*l.* of bullion deposited.

4025. You have frequently made use of the expression that the Bank note is nothing more than a certificate for so much bullion?—It is a certificate of that amount of bullion which would be in circulation as money if there was no paper note.

4026. What do those notes represent which are issued upon the 14,500,000*l.* securities?—I hardly know, when we come to strict reasoning, what is meant by the word “represent”: the actual state of the fact is clear and is intelligible. The total amount of notes issued is that which would be the total amount of bullion in circulation if we had only a metallic currency; but of the amount of bullion carried into deposit, in consequence of the substitution of paper notes, a certain portion is taken out by the authority of the Government, and invested in a profitable security, the remaining quantity of bullion

being conceived to be such, that the exhaustion even of that can never take place, because the country will never bear a decrease of its aggregate amount of money to so low an amount.

4027. Then that quantity of notes cannot be said to represent bullion, but they are issued to that amount, which is utterly impossible for the country to demand payment of?—They represent that amount of metallic money which would be circulating if the notes did not exist; and their capability of being exchanged into bullion depends upon the fact that there is such a quantity of bullion held in reserve that the country will never bear a reduction of its notes to so low an amount as to exhaust its bullion.

4028. The country never can be in a situation to be able to demand the payment of the notes?—It depends entirely upon the sense in which you use the words “be able to demand.” Of course, every holder of the 26,000,000*l.* has the power of demanding that bullion; but the arrangement is founded upon the assumption, and I believe a very safe assumption, that the country never will bear such a diminution of money as would be involved in carrying in the notes for cancellation down to 14,000,000*l.*; and that before you reach that point such will be the pressure from the decrease of the quantity of money, and the increase of the value of money, that more bullion will be brought in to supply the place of the suppressed notes.

4029. How would that bullion come in?—It would come in by a very simple process. When the money of the country undergoes a diminution of amount, its value increases; there is a general feeling of a want of money in the country. Then all the persons who have

foreign correspondents will be very soon placed in such a situation that they will write to their foreign correspondents: "Whatever remittances you have to make to this country, send them in money; it is the most advantageous remittance that can be made here. Do not send us bills of exchange, do not send us securities, do not send us even commodities; at present the most advantageous remittance is bullion; send us bullion."

4030. Suppose that your correspondents are not in a position to send you bullion?—We must not discuss the arrangements of the world upon the supposition that the world is to stand still. A certain quantity of bullion is appropriated, by the wants of the different countries of the world, to perform the functions of the money of the world: and the only question is of that money, what proportion shall each country possess, and when one country possesses less than her due proportion of money, other countries will be induced to transmit to her a certain portion of what they have, because it is the best remittance under the deficiency of that country.

4031. Is it not possible that there may have been exports from this country calculated upon receiving back again the produce of other countries, and that therefore the debt owing by the correspondents abroad is created upon the principle that as we have sent our manufactures, we are to receive their goods in return; and if upon any change of affairs here, we write to them, "We cannot have your goods, but you must send us bullion," and they have not the bullion to pay; what will then be the result of the great drain of which you have spoken as having been brought down to the lowest point which the country could bear?—The first answer to that question is, that the

supposition is an impossible one. All the other countries of the world cannot be in a situation in which they have no bullion to send us; it is a mere question of relative value. There is a certain quantity of money distributed through the different countries of the world in relative proportions; when the proportion is in any respect disturbed in any given country, then there is a tendency to draw money from the other countries to supply the deficiency in that country; and to suppose that there is no money in other countries to be drawn, is to suppose a total suspension of the whole state of things existing throughout the world, with reference to which state of things you are putting the supposition.

4032. I do not put the question as against all the world, but as against the particular nation with whom that transaction has taken place?—But you must take in all the world; the transactions of this country are not with any one country exclusively, but they are with all the countries of the world. Our receipts in payment for exports come through various circuitous and indirect channels; perhaps, if we send goods to The United States, the payment for those goods may come to us from China or from Australia. The transactions circulate from country to country, but the principle at the bottom is, that the money of the world is distributed in certain proportions, which proportions are such that the normal state of things between the different countries of the world will be a state of barter; but there may be a temporary disturbance of that equilibrium, so that for the moment it ceases to be a state of barter, and becomes a transmission of money, and by that transmission of money the equilibrium is very soon restored.

4033. But the state of things supposed is that in which the particular country to which exports may have been sent has not the money, in which case your Lordship contemplates that it will draw the money from other parts of the world, and send it to us; would not that operation take a very considerable time?—The operations are so multiplied, that they are taking place every day. I am now stating things only to illustrate the principle; very often it will assume a different form. It may assume the form of preventing any more money going out of this country. A very remarkable circumstance of that sort occurred in the spring of 1847. I detailed its history in my evidence in 1848; the very thing which you suppose, occurred; that is to say, when a rise in the rate of interest by the Bank at last took place, many persons said, “It is too late; the mischief is done; there are orders in this country from America to send bullion to America, and the bullion is actually on board the ships at Liverpool.” I remember having that constantly pressed upon me: to which my answer was, “It looks formidable; it is an awkward crisis; but the more difficulties you are surrounded with, the more necessary it is to adhere firmly to principle; keep up your rate of interest, and do not fear the consequences.” What was the result? Not one of those orders was executed; and the bullion on board the ships at Liverpool was taken out, and brought back and deposited in the vaults of the Bank of England; not one farthing of it ever left the country. You cannot have a stronger instance; that was the crucial instance by which the validity of the principle was effectually tested.

4034. It was in consequence of raising the rate of interest that the money was brought back again?—It was

in consequence of such a diminution of the money of this country as raised its value so high, that actually the orders from America to send gold to America, were not executed, and the money never went.

4035. Was the gold for which the orders were sent to go in payment of debt in America, or in purchase of commodities or securities?—That does not affect the question at issue; the whole thing is the result of a complicated balancing and counter-balancing of transactions. The order was an order merely founded upon the state of the exchanges, which showed an apparent profit in the transmission of bullion to America. But when the orders came over here, it became clear, from the increased value of money on account of its diminution of amount, that that profit was gone, and that there would be so large a loss upon the transmission, instead of profit, that the parties did not even venture to execute the orders which they had received, but returned the bullion to the Bank.

4036. Then those orders to send the bullion for the payment of debt were not complied with?—They were not.

4037. Suppose the case which you have put to lead to that result, namely, that there is a demand for bullion in consequence of the value of money in this country being raised by the draining of bullion, and that you desire the Americans to send you bullion, but that they refuse to do so, what will be the result?—You are putting a set of suppositions inconsistent with one another. The first supposition is, that the money goes out of this country, because it is an advantageous remittance to make to another country, and that that raises the value of money in this country above the value of money in other countries, and that therefore orders go out from this country, saying,

“Send us bullion.” Then you make another assumption contradictory of the first, namely, that the value of money in the other country has become such that it will not allow it to come. If that is the case, then the money in this country is not in deficiency as compared with the money of that other country.

4038. I am afraid I have not made myself intelligible. I am not putting the two circumstances as being simultaneous. If I understood you rightly, you said this: that there was a time when there came great orders to this country to remit gold?—Yes.

4039. Whether that was for the purchase of commodities or for the payment of debt, is of no consequence whatever, as your Lordship says, to the real fact. The fact was that money was worth more in this country than in America; therefore the orders were not executed, and the bullion was retained in this country?—Yes.

4040. The question which I put afterwards was this: supposing the same state of things to exist, as your Lordship stated, a few answers back, that by raising the rate of interest here, you raised the value of the money here. You then write to your correspondent abroad, and say to him, “Do not send us goods or securities, but send us bullion.” I suppose that at that time the nation with whom you are corresponding, is in the same situation as your Lordship has described us to have been in, when the orders came from America, and that they can no more fulfil our orders upon them, than we fulfilled the orders of America upon us?—Upon that supposition, bullion would be drawn from all the other countries in the world to supply the deficient state of it in the two countries which you have instanced.

4041. Would not that take a considerable time?—
No; a very short time.

4042. I may be told, that the case which I am about to put, is an extreme case, but I believe that the best way to try the soundness of any principle, is to put extreme cases, if they are possible?—Provided you take care to put a case which is really a possible case.

4043. I will put a succession of very bad harvests, and that we are importing very largely corn into this country: that importation must be met by bullion to a very large extent?—No, I do not admit that.

4044. Do you believe that we could maintain a very large importation of corn into this country without a drain of bullion to a very large extent; I do not say the whole extent?—If you will give me 12,000,000*l.* of bullion in the coffers of the Bank of England, and assume that we want to import 40,000,000*l.* of provisions, if you will only regulate the paper issues according to the fluctuations in the bullion, I will undertake to say that we shall get the 40,000,000*l.* of provisions, and not part with more than 4,000,000*l.* of bullion.

4045. How would that transaction take place?—In this way. The first import of provisions would very probably be paid for in bullion. I will assume that it is paid for at once, to the extent of 4,000,000*l.*; the effect of that is, that 4,000,000*l.* of notes are cancelled; the money of this country is diminished 4,000,000*l.* in amount. What is the effect of that? The effect of it is that all persons holding a foreign correspondence, say, first of all, to their correspondents abroad, “Money has become excessively valuable here; you must send us money, and nothing but money.” In the second place they say,

beyond that, "We send you bills of exchange; we send you interest-bearing securities, all of which you must realise in your different countries, and for that you must remit us money." Then again the effect of it would be that our consumption of other articles than provisions from every part of the world would be diminished; and again, that our exports of one kind or the other to some other countries in the world would be increased; and through all those various processes we should obtain the remaining balance of 36,000,000*l.* with which to pay for our provisions. [A case very similar to this, identical indeed as far as regards the principle upon which they both depend, is alluded to by Mr. Haldimand, in his evidence before the Committee of 1819 (Question 93), "France has at this moment nearly twenty millions sterling to pay to foreign powers. My opinion is that a very small portion of this large payment will be made in specie or bullion: when a certain amount of the circulating medium has left France the remainder will rise in value, and goods fall in price, when consequently it will become more advantageous to France to remit the remainder in its produce and manufactures, from time to time." The principle here relied upon has been fully explained and established in the writings of Mr. Ricardo—"A void in the currency, occasioned by the annihilation or limitation of paper currency, would speedily be filled by importations of bullion, which its increased value, in consequence of the diminution of circulating medium, would infallibly attract to the advantageous market. However great the scarcity of corn might be, the exportation of money would be limited by its increasing scarcity. Money is in such general demand, and in the present state of civilisa-

tion is so essential to commercial transactions, that it can never be exported in excess.”—“High Price of Bullion, &c.,” p. 13.]

4046. You think that the result of those various processes would be obtained in time to meet the payment for our extraordinary demand?—Yes; it is very easy to postpone many of those payments through exchange transactions and credits, and a variety of processes. The thing is not a mere supposition; the thing has happened over and over again.

4047. That is done through raising the value of money in this country?—Yes.

4048. Of course then that would create an increased difficulty, *pro tanto*, in paying for the corn?—You must remember this, that if you are supposing such a failure of harvests as imposes upon us the necessity of importing 40,000,000*l.* of provisions, it is quite impossible that it should not be accompanied with very considerable pressure and sacrifice on the part of this country; no arrangement whatever of the monetary affairs can possibly obviate it. The loss of 40,000,000*l.* in the harvest of this country, of necessity involving 40,000,000*l.* of foreign supplies to be paid for by this country, must place a very severe and heavy pressure upon this country that is quite unavoidable.

4049. Your Lordship was asked on the last day, whether it would not be possible in a great degree to mitigate such difficulties as I have endeavoured to portray by having two sorts of notes, one of them payable in bullion, but the other, if I may use the expression, a sort of I O U note between the Government and the public; whether inasmuch as the Government owes 6,000,000*l.* or 7,000,000*l.* every quarter in the shape of dividends or

expenses, and the country owes 6,000,000*l.* or 7,000,000*l.* of taxes, it would not be possible to arrange that there should be two sorts of currency afloat; one the common banking note, payable in bullion, and applicable for all general purposes, and the other a note applicable in the more limited sense?—Our affairs would then go on very much in the way that a man would walk with one of his legs six inches shorter than the other. One set of notes would circulate at a depreciation compared with the other set of notes; hence great inconvenience and confusion would arise.

4050. What would be the real effect of it?—The effect would be, that you would have paper money of two different characters in the country, not of equivalent value; not circulating indiscriminately each for all purposes, but some useful for one purpose, and some useful for the other, and that there would be intolerable confusion. A man would have Government notes, and he would present them to another man in payment; that man would say, "I do not want Government notes; I want to make a remittance abroad; I cannot get bullion for those Government notes; I will not take them;" are they both to be a legal tender?

4051. They would both be a legal tender as far as the Government is concerned, but the Government note would not be a legal tender between individuals?—Then what is that individual to do?—The other man says to him, "You must go and get me the other notes. Either you or I must pay a premium for them."

4052. What would be the harm of that?—The harm would be, enormous injustice and intolerable confusion.

4053. Why injustice; it would be a voluntary transaction; nobody would be compelled to take those notes?

—Then, if nobody was compelled to take them, nobody would take them, and there is an end of them.

4054. That is a question of opinion. Do you believe that if any person had notes which ensured to him the payment of all the Government demands upon himself, though he had no demands upon him directly, he would not find numbers of persons who would exchange those notes for him at a premium or a discount?—Then, you would have a certain proportion of the monetary system of the country circulating at a discount; I cannot conceive a greater state of monetary disorganization than that.

4055. Do you conceive that to be so great an evil as your Lordship has been describing, namely, that when you are obliged to import very largely, great distress and mischief will fall upon the community?—But your proposed circulating medium would increase all those evils, and not diminish them.

4056. In what way?—You would not bring about that state of things which would enable the payment for the 40,000,000*l.* of provisions to be made in other things than in money. According to your system, you would have to pay it all in money, and you would have no money to pay it with; you would get into utter confusion, and it would end in the people being starved. [The plan suggested in the preceding questions, would be in fact an attempt to maintain the paper money of the country at an undiminished amount, whilst the state of the exchanges and the progressive export of bullion clearly showed that the money of this country is in excess of the amount which could be maintained if the money were exclusively metallic. So long as this plan was successful in maintaining this condition of our monetary system,

the export of the metallic portion of our money would continue, until it was exhausted, and we were brought to suspension of specie payments. This would speedily occur; long before we had paid for the whole 40,000,000*l.* of provisions. What is then to be done? how is the remaining portion of the imported provisions to be paid for. The discussion of all such plans brings us in the end to the same conclusion. The trading intercourse of nations must be in fact an intercourse of barter; an interchange of the products of each nation for the products of other nations. Upon no other principle can the foreign trade of a country be continued; and when money begins to be exported instead of commodities, that export of money must be checked by the diminution of amount and consequent increase of value of the remaining money, and thus the export of commodities, rather than money, be revived. Confusion and monetary difficulty must be the inevitable result of any scheme which attempts to interfere with, or to modify this natural and legitimate mode by which international trade is maintained in a state of permanent equilibrium.]

4057. What does your Lordship suppose to be the amount of bullion in circulation in this country now, in the shape of coin?—I am not aware; a very considerable amount.

4058. Has your Lordship turned your attention to it?—No.

4059. Suppose the idea of persons who have turned their attention to it, to be a right one, that we have not less than 60,000,000*l.* of bullion in this country, would not the effect of such a paper as I have described be to let loose that bullion to go in payment of the corn, and to use this new description of currency, which would be con-

vertible for everything but bullion, for our social purposes? —It is a long and complicated discussion, but you would get into an infinite series of difficulties. In the first place you would want that which is the most legitimate, certain, and wholesome mode of paying for the provisions, namely, by diminished imports or increased exports of other articles, commodities or securities; you must come to barter in the end; if you want 40,000,000*l.* of provisions from other countries, you must get into a state in which you can give those other countries 40,000,000*l.* of value of some kind or other, and all your conundrums about these Government notes would not get over that difficulty. See the enormous inconvenience which it would involve to part with the whole or nearly the whole of your bullion; and when you had parted with it you would very soon find that it was insufficient to pay for the provisions, that your exhausted bullion exposed you to the danger of suspending specie payment, and that you remained subject to all the pressure necessary for drawing the bullion back to the country.

4060. But that parting with bullion would be to meet the immediate necessary pressure, and the course of trade would relieve that pressure?—The proposed plan would produce infinitely greater pressure; money is only the medium through which barter is established, and you bring us back to a state of real barter by allowing your money to increase in value as the quantity of it is diminished through the action of the exchanges. The other course of proceeding is perfect quackery.

4061. Mr. *Hildyard*.] You stated, if I understood you, that it was your belief that if the Act of 1844 had not existed in the spring of 1847, there would have been a danger that the Bank would not have been able to give

gold for its notes?—It is my firm belief that that would have been the result.

4062. Am I then to understand your belief to be, that except for the operation of the Act of 1844 the bullion drain would have gone on to the extent of exhausting, after April, the sum of 9,000,000*l.* of money, 7,000,000*l.* having gone out within a very short time to meet the drain which had set in?—Yes, that is my belief, certainly.

4063. You think that the balance against this country was at that period so great, that 9,000,000*l.* would have gone out if the Bank had not been driven to measures, to which the Act of 1844 compelled them?—Yes, and a great deal more than 9,000,000*l.* The money of this country was at that time depreciated in its relation to the money of other countries, and if no steps were taken to correct that depreciation, money would continue to go out of this country to an indefinite extent. [The question depends not upon the supposed balance against this country—that is upon the money value of the excess of imported commodities over exported commodities—it depends upon the relative value of money or of commodities as the most advantageous means of paying for all our imports. If money is exported in payment for imported commodities, that fact proves that money affords a more advantageous means of payment than goods, and unless the value of money be increased by the contraction of its amount, foreign payments will continue to be made in money rather than in commodities, until all the exportable money, that is all the bullion, has gone out of the country.]

4064. We will look at the rate of interest which the Bank were charging. You have told us that one of the means of checking a drain is to raise the rate of interest,

and thereby to cause all parties to write to their correspondents to send money over to a country where it has become dear; to stop shipments to this country, and so forth. Do you know what was the rate of interest charged by the Bank from the period when that drain commenced up to the period when the bullion had actually increased, namely, from August the 29th, 1846, up to July the 10th, 1847? What was the highest rate of interest which the Bank had demanded as a mode of checking so formidable a drain?—If I understand the real drift of that rather lengthened question, it is founded upon an assumption, which I have several times denied, namely, that the Bank has an arbitrary power in itself of raising the rate of interest. The Bank has no such power; the Bank cannot raise the rate of interest except from two causes, one a real alteration in the relative demand and supply of capital, and the other a diminution in the quantity of money in the country. Now that is the very basis of my argument on this subject. So long as the banking reserve is not set forth, there is no evidence whatever of a diminution of the quantity of money in the country. There being no evidence to show a diminution of the quantity of money in the country, there is no ground for a rise in the rate of interest; but the moment you set forth in the accounts the banking reserve and show that it has undergone a great diminution, that is really a decrease in the quantity of money in the country, and that decrease in the quantity of money in the country raises the value of the remaining money, and the Bank does not raise its rate of interest by an arbitrary act, but it conforms to the increased value of money produced and caused by the conviction in the public that there is a diminution in the amount of money.

4065. I understood your Lordship to state that you had several times remonstrated with the Bank because they had not raised their rate of interest. If the rate of interest is not in any way whatever dependent upon the movements of the Bank, why did you make a remonstrance with the Bank for not doing that which you say would have been inoperative inasmuch as the rate of interest fixes itself?—What I remonstrated with the Bank about was, that they did not raise their rate of interest so as to make it conform to the rise which had taken place generally in the rate of interest ; that they kept their rate of interest below the market rate, and that consequently there was a very heavy demand continually going on upon the Bank, and thus reducing the Bank reserve.

4066. Though the accounts had not been kept in the way in which they are under the Act of 1844, the Bank Directors would have been perfectly cognizant that a drain had been going on upon the bullion of the Bank from 16,000,000*l.* to 9,000,000*l.* of money, would they not?—Yes.

4067. Then why would they not have been just as much cognizant of the drain which was then going on as they were made cognizant by the particular form in which their accounts are now kept?—They would have been cognizant of the continuous drain of the bullion as they were cognizant of the continued drain of the bullion during 1824, and the early part of 1825. But in 1824–25, they did not take measures necessary to stop that drain of bullion, but they allowed it to go on until it was exhausted, and I see no reason whatever, and no reason whatever has been assigned by anybody, why that process would not have been repeated in 1847 had it not been for the existence of the account setting forth the state of the

banking reserve. The state of the banking reserve was such, that the Bank were left without an alternative; there the heavy hand of the law came upon them; they could go no further. Therefore it compelled them to do that which their moral courage otherwise probably would not have led them to do, and with no great blame attaching to them, because it is the moral pressure of the community which has acted upon them. Previously they would not have been sustained by the public in such a contractive action, but with this published knowledge of the state of the banking reserve, the public were put into a right state of mind upon the subject of the banking reserve, and by that means our monetary system was saved.

4068. Still, with all that heavy pressure of the law, the conduct of the Bank, so far as regarded their action upon the rate of money, was, that the discounts which they charged never extended beyond $5\frac{1}{2}$ per cent., and that only for a short period in the autumn of 1847?—I am speaking of the spring of 1847.

4069. In the spring of 1847 the rate of interest was lower. Up to the 3rd of April the Bank had charged no higher rate of interest than 4 per cent.; from that period up to the 31st of July they had charged no higher rate than 5 per cent.; from that period up to the crisis, in the end of October, they had charged $5\frac{1}{2}$ per cent.; never, during the whole period, having gone higher than $5\frac{1}{2}$ per cent., and for a great period not higher than 5 per cent.? —The less the Bank raised its rate in the spring of 1847, the stronger is the proof of the value of the provisions of the Act of 1844 in setting forth the state of the banking reserve. What was it that stopped the continuus drain

which was going on? The knowledge of the exhausted state of the banking reserve produced alarm on the part of the Bank, and alarm on the part of the public, which materially affected credit, confidence, and the efficiency of the circulation. To show how very easy it is to draw false inferences from mere statements of figures, it appears that the Bank, in the spring of 1847, did not raise its interest above 5 per cent.; but there is one fact which I can state of my own knowledge (and I believe everybody who was conversant with the state of things in the money world at that period will verify that fact), that the Bank Directors themselves, from seeing the state of their banking reserve, became panic-stricken, and some of them very incautiously said to the public: "The Bank has done all that it has the power to do; it can go no further; it can do nothing more for the mercantile world; they must now take care of themselves." That produced a state of panic and alarm which had the most contractive effect upon credit, and upon the efficiency of the circulation.

4070. That assumes that a continuous drain is going on. You have told us that the effect of a drain is felt, first and principally, upon the bullion in the Bank; is not that so?—No doubt of it.

4071. So far from a continuous drain going on, it appears that the drain had been checked, and that there was a rise from the 10th of April from 9,500,000*l.* to 10,170,000*l.*, and that that check continued until the 10th of July?—No doubt.

4072. Therefore why do you speak of a continuous drain going on, when it appears that the drain was checked, and that there was a slight increase in the treasure of the Bank?—I speak of the continuous drain during the pro-

cess of reducing the bullion from 16,000,000*l.* down to 9,000,000*l.* Then, that being a process continuous for a great length of time, I ask how comes it in April to be stopped?—I say that it was stopped by this circumstance; that the publication of the state of the Bank reserve showed that the Bank had exhausted all its means, and that it could go no further. And I add a fact, which does not appear upon the papers, but which is perfectly notorious to everybody who was in the city, that the Bank Directors very incautiously made the declaration to the public that the Bank had done all it could, and could go no further; that it must now take care of itself, and that the public must take care of themselves. That produced a temporary panic, well known proverbially as the spring panic of 1847. That panic so produced, and which resulted from the state of the banking reserve, produced an effect upon credit, confidence and the value of money, which very soon stopped the drain; and from that time, whilst that panic feeling existed, and had not totally subsided, the drain was corrected and stopped, and the bullion began slightly to increase again. But that was the result of the publication of the banking reserve.

4073. It is very important in these matters to keep to facts, and these facts are brought before us in the shape of papers submitted to us. When there was 16,000,000*l.*, the Bank were discounting at 3 per cent., and then the drain which I have already adverted to, to the extent of 7,000,000*l.*, took place; upon which the Bank began to take alarm, and raised their discount to 4 per cent., and then to 5 per cent., the drain having then reduced the bullion from 16,000,000*l.* odd to 9,000,000*l.* Beyond

that they did not raise their rate of interest, and yet, by their continuing at that same rate of interest, which I understood from you you thought they ought not to do, so far from the drain continuing, the drain was checked, and there was an augmentation at one period in June, amounting to 1,000,000% in addition. In the face of those facts why do you tell me that but for the Act of 1844, the drain which was going on would have exhausted those 10,000,000%, and put in danger the convertibility of the note?—I will give a very simple answer to the question; I say so, because on all former occasions, both in this country and in other countries, such has been the result; and I say that what stopped the drain in April was the knowledge derived from an account, the publication of which account was first ordained by the Act of 1844.

4074. I am quite aware that the Bank began adopting other restrictions which this paper does not enable me to go into?—I am willing to take it upon the paper; there is no doubt that other restrictions were adopted, but there is no occasion to take other restrictions into the account.

4075. If you will allow me, I will draw your attention to your answer 3833; you were asked whether you concurred with those witnesses who spoke of the active circulation as that portion of the circulation which is issued from the Bank without including the notes in the Issue Department, but unissued, and you stated that you did not do so, and that you considered the notes in the Issue Department unissued as the most active part of the circulation?—Yes, the notes in the Banking Department. Notes cannot remain in the Issue Department; they are

necessarily put forth by that department as the bullion is brought in; they may remain in the Banking Department, forming part of the Bank reserve.

4076. You gave an illustration of that by showing what was the effect when those notes were exhausted?—Yes; what would be the effect if they were exhausted, and what was the effect when they were suddenly augmented.

4077. I think you will find that you spoke of what was the effect, because you alluded to the state of things in 1847, when that reserve, though not actually exhausted, was nearly so?—No; the effect in 1847 was the effect arising from a peculiar increase in the amount of the reserve; I mean the effect of the Government letter.

4078. But you spoke of the state of things which existed previously to the issue of that letter, that state of things growing out of the fact that it was notorious that the Bank reserve was nearly exhausted?—That had reference to the spring of 1847; do not mix the two periods together.

4079. I have referred you to your answer, and let me see whether I am in error or not; you say, "What was the Government letter of 1847? Why, it was an indefinite increase of the Bank reserve. What was the effect? Not one note was put out into what is called its active state; not one single note passed out of the Bank in consequence of it, but the Bank reserve was indefinitely augmented. What was the result?" Now, I draw your attention to these words: "The want of confidence was removed, and every thing was made smooth and easy. The whole machinery of the credit system of the country,

which had been brought to a dead lock, was immediately put in order?"—Yes.

4080. You were speaking then manifestly of the state of things which existed just before the Government letter issued?—No doubt.

4081. You are aware that at that period the exchanges had turned, and were in favour of this country?—They turned just about that time: I do not know the fact but from the circumstances; I know that they must have turned.

4082. And we find that by the end of December the bullion had increased from that minimum point of 8,400,000*l.* to 12,237,000*l.*?—Yes.

4083. The exchanges, you say, had turned just at that point; what was the actual bullion? I am not now speaking of the bullion, distributed as it is by the Act of Parliament, but what was the actual amount of bullion lying in the coffers of the Bank of England at the time when that letter was issued?—I should presume about 8,400,000*l.* or 9,000,000*l.*, but I do not know.

4084. Then, with the exchanges having turned in our favour, and with 8,000,000*l.* or 9,000,000*l.* of bullion in the coffers of the Bank, a state of things existed which is properly represented by yourself, I have no doubt, when you say that "the whole machinery of the credit system of the country had been brought to a dead lock;" was that the operation of the Act of 1844, or was it not?—It was not the necessary operation of the Act of 1844; it was the operation of a very violent and unreasonable panic feeling seizing the public mind; that panic feeling was intimately connected with the enormous mass of mercantile failures which then took place, and it was

further increased by very ignorant apprehensions existing in the mind of the public from their not understanding the real character and operation of the Act of 1844.

4085. But you have described that state of things as growing out of the knowledge which had transpired that the Bank reserve was nearly at an end?—No; you are jumping backwards and forwards from one period to the other; that description had reference to the spring of 1847.

4086. I humbly submit to your Lordship that I am not jumping backwards and forwards, and I put your own language before you, and shall be ready to be bound by it. Had you not in the early part of that answer been describing the state of things which would result from the Bank reserve being at an end?—I do not understand what is the purport and drift of the question. So far as I understand it, it relates to this, that in the spring of 1847 a great alarm sprang up about the exhausted state of the banking reserve; that that assumed a sort of semi-panic character, the effect of which was to correct the drain, and to stop it, and a moderate degree of replenishment of the bullion in the Bank took place; then, in the autumn of 1847, there sprang up a very violent panic feeling, arising from the two causes which I have already spoken of, namely, the enormous extent of mercantile failures, the thoroughly rotten condition of a large portion of the trading world which was then developed, and the apprehensions entertained by many persons with regard to the Act of 1844, founded upon an ignorant view of its real provisions and effect.

4087. Do I rightly understand the answer which you

gave to Question 3833?—Will you read the part of my answer to which you refer?

4088. You had been asked whether you agreed with a particular definition of the words, "active circulation." You said that you entirely differed from it, and you illustrated your meaning by this answer?—That is quite true.

4089. You said that the reserve was the most active part of the circulation; you were asked, "Will you describe how?" you answered, "I will give you a practical illustration: suppose that this Committee was to-day to issue an order for destroying all the notes now lying in the bank reserve, and that that order was made known in the city of London to-morrow morning, what would be the result; what would the bankers do? They would every one of them go into the city in a state of perfect panic, and would say, 'God bless me! I have lost my balance at the Bank of England; it is all gone, it is destroyed by an order of a Committee of the House of Commons.' What would they do? They would every one of them send their Exchequer bills to their brokers: they would say, 'Take my Exchequer bills, sell them; take my stock, sell it; bring me bank notes, I do not know what is going to happen; the Bank reserve is destroyed; I must have bank notes immediately to put me in a proper position.' In the meantime their customers would get wind of what was happening;" and so you proceed, and then you illustrate that which you say would be the result by telling us that when the Bank reserve in 1847 was destroyed, the whole machinery of the credit system of the country had been brought to a dead lock. I again ask you, if that state of things took place when the

exchanges had turned with us, and the external drain therefore was stopped, and when the Bank of England had 8,000,000*l.* or 9,000,000*l.* of bullion actually in its coffers, was not that state of things the result of the Act of 1844, which had precluded the Bank from using the whole of its actual reserve?—There are so many parts in that question that I think it should be broken into several questions, and taken *seriatim*. I can only again go over the ground over which I have gone before ; that I describe the spring of 1847 as being a state of panic alarm, created by the knowledge of the exhaustion of the banking reserve. When I was afterwards questioned about the importance of the banking reserve, I illustrated its importance by the supposed case of a sudden and absolute destruction of the banking reserve, and showing what strange confusion would take place throughout the whole trading world in consequence of that event. With regard to the autumn of 1847, there is no doubt that a very great panic feeling then sprang up: a panic feeling, as I must state again, arising from enormous mercantile disasters, fomented further by a misapprehension and all the alarm produced by ignorance with regard to the true action and effect of the Bank Act of 1844. Then, again, with respect to the 8,000,000*l.* or 9,000,000*l.* of bullion which was then lying in the Bank, I believe the existence of that amount of bullion at that time was a most fortunate circumstance, because it prevented another very formidable ingredient being thrown into the cauldron of our disasters, namely, alarm with regard to our specie payments: that being a form of evil from which the Act of 1844 protected us at that time, and for the first time in the history of our monetary panics

did we escape from that being mixed up with the other difficulties of similar periods. It must further be observed, that the 8,000,000*l.* or 9,000,000*l.* of bullion lying at that time in the Issue Department was represented by a corresponding amount of Bank notes, put forth by that department for the use of the public.

4090. Assuming that Parliament had then been sitting, that we had set aside the forms of Parliament, and had passed a Bill repealing the Act of 1844, instead of issuing that letter, which issued upon the responsibility of the Government, do you believe that the same result would have followed?—The Government letter was, in a certain form, a temporary suspension of the Act of 1844.

4091. Do you believe that if we had repealed the Act, the same result would have followed?—The same in what respect?

4092. As far as regarded the immediate effect upon credit, and the restoration of confidence in the city?—If it had been understood that the repeal of the Act only involved an unlimited power of issue by the Bank of England it would have had the same effect, but not otherwise.

4093. Then why do you object to my question, which infers that the evil resulted from the Act of 1844, if its repeal would have restored confidence?—The repeal of the Act of 1844, if it had admitted of an unlimited issue of paper, would have medicated to the evil at that moment, but it would have involved the country in all the dreadful consequences of an excessive issue of paper, and would probably as the final result have substituted for what took place the suspension of specie payments altogether.

4094. Are you correct in saying that the letter of 1847 did indefinitely augment the reserve of the Bank; did

it absolve the Bank from paying its notes in specie?—No, it did not absolve the Bank from paying its notes in specie, but it did enable the Bank to issue any amount of notes that it thought proper. No doubt those notes were still payable in specie, and the letter was accompanied with a clause directly applicable to that subject ; for though it placed an indefinite amount of bank notes at the command of the Bank of England, yet, to protect us against that very danger, this permission was accompanied with the restriction, “ You must not let any one of those notes go out under an interest of 8 per cent.”

4095. And not a single note, according to your own statement, was issued on those terms ; confidence was restored, the drain was at an end, and in December we find that the bullion in the coffers of the Bank had increased from 8,000,000*l.* to 12,000,000*l.* of money ?—Yes, that is quite true.

4096. Your Lordship spoke of the enormous advantage which had resulted to this country from the Act of 1844 during the long drain which has now been going on ; and I think your Lordship again stated your opinion that we should have been unable to meet the convertibility of the note if it had not been for the Act of 1844?—I do not know that I used that expression with regard to the last two years, because I do not believe that the facts come out quite in such a form ; but there is no doubt that during the last two years this country has been subjected to a very heavy drain of the precious metals ; that heavy drain of the precious metals has been met by the Bank of England strictly and efficiently discharging its duty ; it has conformed immediately in its rate of interest to the real rate of interest produced by the decrease of the

quantity of money in the country. The result has been that, under a very protracted and a very heavy pressure, arising from a variety of causes, everything has gone on safely and smoothly, and every principle upon which the Act of 1844 was founded has been verified, and every argument used by those who support it, has been confirmed by actual experience.

4097. As you ascribe the whole of this satisfactory action to the Act of 1844, let me draw your attention to France; France, as regarded the war, was subjected to heavier external payments than this country was, by means of the larger number of troops that she maintained; is not that so?—I believe she has been subjected to heavy demands.

4098. Had she not also to encounter the evil resulting from most fearful inundations?—I dare say she had.

4099. Was there not also a failure of the silk produce, which we will call the silk crop?—Very probably.

4100. Has not also the production of the vineyards in France for the last three or four years been very much indeed below their average?—Very probably.

4101. Have not the two or three last harvests in France been rather below the average?—Very probably.

4102. France, I believe, pays her obligations in specie; it is a convertible currency, is it not in France?—Yes.

4103. Has France been able to meet her obligations, or has she been obliged to declare that she cannot convert her notes?—France has not suspended her specie payments; but France has been driven to very extraordinary measures for the purpose of supporting them, and very unnatural measures. The exact character of those measures I believe it has puzzled the most observant persons

in this country to discover. You have next to you a gentleman who has had great means of knowledge upon that subject; and there is another gentleman here who, from having been in the management of the Bank of England, must have paid great attention to it; you had better examine them as to what their opinion is of the measures which the Bank of France has been driven to for the purpose of maintaining by artificial means the necessary amount of bullion in the country. I do not know how far it is permissible for me to allude to evidence given previously before the Committee, but it has been intimated to me that some very strong statements indeed have been made before this Committee of the pumping in by the most violent processes of one hundred millions of bullion into the Bank of France, and that at the end of it the store of bullion in the Bank of France was less than it was at the commencement of that forcible and unnatural process.

4104. We have already examined the gentlemen to whom you advert, and, if I am correct, I think they stated that they believed that the means resorted to were perfectly futile, and did not accomplish their end?—That does not mean that the means were futile, that is to say, that the one hundred millions of gold was not thus pumped into the Bank of France; they were futile because they were not sufficient to keep it there, according to that statement; I do not adopt the statement; I think it a most extravagant one.

4105. Assuming, however, that artificial means had been resorted to, and therefore we will assume expensive means, upon whom would that loss have fallen?—Upon the country.

4106. Whom do you mean by the country?—I mean that the country at large must in the end pay for it.

4107. In what way would it fall; immediately upon the Bank of France?—I presume the Bank of France must in the first instance pay for that very unnatural process.

4108. And it would then fall upon the community at large?—Through them upon the community at large.

4109. Convertibility of the note is a matter in which the community at large is interested, is it not?—Yes.

4110. Every creditor in the country is equally interested in the convertibility of the note, and the preservation of the standard?—Yes.

4111. Then it is inequitable that the expense of the means by which convertibility is secured should fall upon the whole community who are benefited?—It cannot be inequitable at all.—[The expense necessarily incident to maintaining the convertibility of the paper money properly falls upon the community at large, for the benefit of whom it is deemed necessary that the convertibility should be maintained. But the expense which may arise from the omission to adopt the legitimate means of maintaining the convertibility and the consequent necessity of resorting to artificial and costly means of securing that end, ought to be borne by those who are responsible for such omission. If the Bank of France, or any other bank, by not cancelling its notes as they are paid in for bullion, and thus checking the drain by a natural process, is driven to the necessity of pumping in bullion by artificial and costly means—the expense thus incurred properly falls upon the bank through whose negligence it has arisen.]

4112. Will you tell me how, under the operation of the Act of 1844, convertibility is secured?—Convertibility is secured by a very simple process, and by one which certainly does throw the burthen upon the whole community generally; it is secured by the simple process that as the money goes out of the country, the quantity in the country is diminished; that diminution of the quantity remaining in the country produces an increased value of that money, and that increased value of what remains stops the exit of money, and is kept up until it has brought back that quantity of money which is necessary to restore the equilibrium.

4113. Have we been incorrectly informed when we have been told that one of the most effective means of checking a foreign drain is to refuse to discount bills beyond a particular length of date?—I do not at all know what you have been told; the most efficient means and the most proper means to correct a foreign drain is this, to allow the money of the country to diminish in quantity in proportion to the extent of the drain; to allow that diminished quantity of money to cause a rise in the value of that money, and to cause the rise in the value of that money so created to be distributed by the fair and free action of natural causes over the whole community.

4114. Is it not within your knowledge that in practice one of the modes by which the Bank do check a foreign drain is to refuse to discount bills beyond a particular date?—I think that a very awkward and incorrect form of scientifically stating the case. The fact is this: that the money being diminished in amount increases in value; that increase in value is exhibited in the form of an

increased rate of interest, and the Bank, like every other body, conforms to that increased rate of interest which arises out of the regular action of natural circumstances.

4115. Is it within your knowledge that one of the means resorted to by the Bank, when they find that a drain has set in, is to refuse to discount bills beyond a certain date?—I believe the ordinary course of the Bank is, when it finds that the rate of interest generally has risen, to raise its own rate in conformity to that general rise. The Bank, of course, must exercise discretion as to which of its means of action it is most prudent, under the circumstances of each particular case, to resort to. There is a mode of checking the advance of capital, not so much through an actual rise in the rate of interest as by shortening the period for which the Bank will lend, a very natural course, generally accompanying the other; but the cause of it is either an increased want of capital or a diminished amount of money.

4116. But is it not within your knowledge that, during the very drain which has been taking place for some time, the Bank has partially refused to discount bills beyond a certain date, and has put a higher rate of interest upon long bills where it has discounted them at all?—There is no doubt that when there is a pressure for money, the value of that money will rise; that the money lent will be lent at a higher rate, and that the disposition to lend will be checked; that checked disposition to lend may exhibit itself very probably in lending it for a shorter period than before. It is all perfectly natural, all perfectly legitimate, and exceedingly wholesome in its effects.

4117. But practically it is not within your knowledge that the means which the Bank must have recourse to in order to check a drain, fall upon a section of the trade of this country, and do not fall upon the whole community?—It is quite inevitable that any cause which acts must fall in the first instance upon that particular class of persons who, from the accidents or circumstances of the case, are most exposed to its action; it is the natural and legitimate course of things. When there is a diminished quantity of money in the country, those persons who are the most immediately in want of money must feel the first effects; and it is only through time and a prolonged continuance of that state of things that those effects permeate through the various classes of the community.

4118. Then you object to the course of action adopted by the Bank of France, which you represent falls upon the community at large, and you prefer the course which results from the Act of 1844, or at all events from the action of the Bank, which casts the loss upon a section of the community?—I object to the course adopted by the Bank of France, because it is what I call quackery; it is not founded upon any scientific principles. I approve of the course adopted by the Bank of England for exactly the opposite reason, because I think it is founded upon scientific principles, and produces the desired result in the most legitimate and therefore in the most beneficial manner.

4119. And yet the Bank of France, under all the peculiar and adverse circumstances which I have mentioned, have not only secured the convertibility of the

note, but have done so without raising their rate of interest beyond 6l. per cent.?—The rate of interest in France, and its fluctuations, are subject to many considerations different from those in England. But if you will examine those gentlemen in your own Committee who have had the management of the affairs of the Bank of England, and ask them whether the result of their observation is such that they would recommend that the monetary system of this country should be upheld and maintained in its security and efficiency by the processes which the Bank of France has resorted to during the last eighteen months, rather than by the processes which have been in operation here, I shall be perfectly ready to leave this question to be decided by their answer.

4120. You have stated that you had no sort of communication with Sir Robert Peel with respect to the Act of 1844, and that therefore so far as you are concerned, that Act may have been the spontaneous suggestion of Sir Robert Peel's own mind?—Yes.

4121. Did I rightly understand you to state that you had been examined in 1840?—Yes.

4122. I thought that I remembered you to have said that the Bill of 1844 was framed in entire accordance with the views which you entertained when you were examined in 1840; was I right in that or not?—Essentially right. There is no doubt that the Act of 1844 was framed in such a manner that I have always given to it my most cordial and thorough approval and support.

4123. Was not the principle of the Act of 1844 chalked out very much by the evidence which was adduced by certain parties in the investigation of 1840?—

There is no doubt about it; the Act of 1844 has been framed in conformity to the views which were advocated by many persons who had watched the various disastrous periods through which we had passed in our monetary affairs, and who had traced, as they conceived, those disasters to the want of a proper and scientific regulation of the monetary system, that want of a scientific regulation being understood to be this; viz., that the Bank of England notes had previously been issued at the free discretion of the Bank, instead of being issued in direct reference to the fluctuations of the bullion.

4124. Therefore, though you had no private communication with Sir Robert Peel, yet you and other witnesses having suggested a measure entirely in harmony with the provisions of the Act of 1844, we need not assume that that Act was Sir Robert Peel's own measure, inasmuch as these suggestions had been offered to him in the most formal way in which they could be offered to him, viz., in the shape of evidence given before a Parliamentary Committee?—I take it that the Government of that day acted in the way in which almost every free and intelligent Government acts, namely, by watching the previous discussions, and applying its own intelligence and experience to ascertain from all the discussions which have taken place where the safe view and the sound principles lie. Undoubtedly I feel complimented by the fact that Sir Robert Peel's clear, acute, and practical mind should have led him to the same conclusions as I have always been led to upon this subject, as shown in the Act of 1844, which I am perfectly convinced are sound in science, and equally useful in their practical results.

4125. Mr. *Vance*.] From your experience of the Act of 1844, is there any suggestion which you would make to the Committee which would improve its minor enactments, and not interfere with its principles?—No; I have not looked at it with that view. I think that as regards all the great and essential principles of the monetary system of this country, the Act is sound and efficient, and I certainly agree with the views which were intimated by Sir Robert Peel, in the correspondence with the Bank of England, upon which this Act was founded, in which he distinctly states that he thinks that discussions, such as those now taking place in this Committee upon the subject of banking and currency, are exceedingly detrimental to the public interests, and that his object in the way in which he framed some of the provisions of that Act was specifically and distinctly with the hope that it would render such discussions in future unnecessary.

4126. I allude to one enactment of the Act; it particularly gives the Bank of England the power, under an order in council, to resume the lapsed issues of the country banks to the extent of two-thirds. Would you be in favour of allowing them to resume the whole?—I do not think it a matter of the slightest consequence. I am neither in favour of it, nor against it. [It is too small an item to become a matter of importance in a discussion which has reference to the effect of general principles. But it must always be remembered that whatever be the extent to which we increase the issues upon securities, to the same extent we necessarily diminish the metallic portion of the money of the country. If the lapsed issues of country bankers be replaced by Bank of England notes, to the amount only of two-thirds,

the remaining third, we may presume, will be replaced by an increase to that extent of our metallic money. But if the whole amount of lapsed issues be replaced by the notes of the Bank of England, in that case there will be no increase in the metallic portion of the circulation; that is, in that portion of the paper money which is represented by an equal amount of bullion actually retained in the issue department.

“If while the Bank pay the notes on demand in specie, they were to increase their quantity, they would produce little permanent effect on the value of the currency, because nearly an equal quantity of the coin would be withdrawn from circulation and exported.”—Ricardo, “High Price of Bullion,” p. 53.]

4127. Your Lordship stated, that you considered that the rate of profit generally rose with the rate of interest in this country, or something to that effect?—I should rather put it the other way, that the rate of interest, all other circumstances remaining unaltered, would conform to the rate of profit.

4128. I understood you to say that when the rate of interest was high, the rate of profit generally was also high?—I would rather again put it the other way, that I think when the rate of profit is high, there must be a very strong tendency to a rise in the rate of interest.

4129. Do you consider that, for instance, the Manchester warehousemen or manufacturers make a larger profit upon their transactions when the rate of interest is high, or when it is low?—I cannot split up things quite into that form, for this reason: no doubt if you assume all other things to be fixed a rise in the rate of interest must, so far as a man pays interest, diminish the advantages of

his business; but what I mean is this, that in a country where the rate of profit is high, there will be a disposition to obtain money as the means of obtaining capital with which to secure that profit. In order to obtain that capital, parties will pay an increased price. Therefore I think that the mere fact of a high rate of interest in a country is anything but presumptive that that country is in an unsatisfactory state. The most progressive country in the world at this moment is the United States, and that is a country in which the steady normal rate of interest is the highest of any country in the world, and for very obvious reasons. With respect to the case put by the question, the Manchester manufacturer, in proportion as his profits are high, will be willing to pay a high rate of interest for the loan of the capital by which he may be enabled to make those high profits.

4130. I will take the case of a London or Manchester warehouseman who turns 100,000*l.* a-year. Suppose that he turned the same amount in 1857 which he turned in 1852, the rate of interest being in one case very low, and in the other very high; do you consider that his profits on the transactions, taking them in a general way, would not be less considerable in 1857 than in 1852?—If he pays more interest upon his borrowed capital, of course so far his profit and his advantage is diminished; but the question is whether there are not a great variety of other considerations. How comes it that he pays a larger interest upon his borrowed capital now? It must probably be that the demand for capital has increased, that is to say, that the trade of the country has been expanded; and that, I believe, to be the state of things to which your question refers. During the past year there has

been a great expansion of the trading energies of this country: I believe that to be a very great benefit to this country; but all human affairs have their little accompanying inconveniences. You cannot have an enormous demand for more capital to carry on an increased trade without being obliged to pay a higher sum for the use of that borrowed capital.

4131. Do you consider that Ireland and Scotland are injured or benefited by their having a paper issue of 1*l.* notes?—I have no personal practical knowledge of the detail of affairs in Ireland or in Scotland. Upon general principles, I believe it is much better for a country that the smaller transactions of the country, those below 5*l.* should be all discharged in metallic coin.

4132. But you have no knowledge that there is any inconvenience or injury affecting the trade of Ireland, or of Scotland, by the circumstance of their circulation being in 1*l.* notes to a great extent?—No, I have no local knowledge on the subject; as a general principle I think it very desirable that all the money transactions of the country below 5*l.* should be in the substantial metal of intrinsic value, and not in the mere paper representative.

4133. Sir *James Graham*.] I understand that you are reconciled to the continued issue of paper money by country bankers, by the greater security, as it appears to you, of the monetary system under the Act of 1844. Supposing the issue of the country bankers in England to remain unchanged, what would be your opinion of extending to the country bankers in England the principle of limited liability which the Legislature has sanctioned with regard to all other commercial transactions?—I am afraid that I am a bad person to be examined upon the subject of

limited liability ; I disapprove of the principle of limited liability ; I believe it to be founded upon a dishonest view of the nature of pecuniary obligations. I believe it to be a weak yielding to that which is always a predominant power, viz., the pressure of the debtor interest, and that the Government, in giving up the principle of unlimited liability, has made an improper concession to the debtor interest, and has not extended that protection which it ought to have extended to the creditor interest. But when you have once established the principle of limited liability, and applied it to other concerns, I confess I do not understand upon what principle of consistency you are to withhold it from banking concerns. In the first place, banking concerns are not so easily distinguishable from other concerns. There are many concerns at this moment which, according to all rational definition, are banking concerns established for the purpose of trading in money, and which have obtained limited liability by the Act as it exists. I remember that in the House of Lords I put it distinctly to the Government, to define the distinction between a bank and some other concern to which the principle of limited liability is now applied. The answer was, that the distinction of banks had existed in Acts of Parliament from time immemorial, and that to ask such a question as that was virtually to stop legislation ; that was the only answer which I could get ; not a very clear or satisfactory answer, as it appears to me.

4134. Assuming the principle of limited liability to remain fixed and unchanged with reference to all other commercial transactions, the law being to that effect at present, what would you say, on the whole, to the extension of it to banks of issue in England?—As a general

principle, I should say that the extension of it to banks was consistent; that you should either have limited liability or unlimited liability: I have no notion whatever of having it for one class of concerns, and not for another class of concerns; but when we consider that this question of the creation of paper money is involved in the matter, that, I admit, introduces a new feature into the case of a very peculiar kind. I do not think that it would be amiss, if we are going to apply the principle of limited liability to banks, that it should be upon the condition of their surrendering their privilege of issue.

4135. My question pointed to the supposition of continuing the right to issue paper money if the limited liability were extended to banks?—I am assuming that, upon the whole, you are bound in consistency to extend limited liability to banks; I think it would be a very desirable thing to make the condition of it the surrendering their issues.

4136. You would hesitate before you consented to the extension of the principle of limited liability to banks issuing paper, on account of the peculiarity of the circumstances of that issue?—The question has come upon me by surprise; I have not sat down deliberately to consider the subject; but my present impression would be, that if I were going to extend the principle of limited liability to banks, I should make the surrender of the issue the condition of that extension.

4137. Mr. *Hankey*]. It has been stated that the export of bullion has been very frequently made by the abstraction of so much bullion from the Issue Department of the Bank; are you aware of any rule applicable to the export

of bullion which does not equally apply to the export of any other article of general use in this country?—No; I presume that bullion is perfectly free to pass backwards and forwards as any other article is. Bullion, which is specially appropriated to perform the functions of the universal equivalent, is to a certain degree taken out of the general character of an article of trade, but still, as money, it is perfectly free to pass backwards and forwards.

4138. Can any one export bullion without either having it in his own possession, or going and buying it at the Bank of England; are you aware of any other usual way in which the export of bullion takes place?—No, I am not aware of any other.

4139. If bought at the Bank of England, must not the buyer bring an equivalent in bank notes?—Yes. [It must be observed that the Issue Department is under an obligation, at all times, to sell gold at a certain *fixed* price, viz. 3*l.* 17*s.* 10½*d.* per oz. It has no free discretion in that matter. It is therefore more correct to speak of the note-holder as entitled to demand gold, than to treat the transaction as an ordinary case of purchase and sale. In cases of purchase and sale, a right of free discretion on the part of the seller as well as the purchaser is understood to exist. No such free discretion exists in the case of the Issue Department; it must sell the gold to every applicant, and to an unlimited amount, at a fixed price.]

4140. Would not those bank notes have formed necessarily a part of the capital of the purchaser of the gold?—The use of the word “capital” is very dangerous.

4141. Would they not have formed a part of his

property previously to the purchase of the bullion?—There is no doubt that the bank note is the representative of bullion; a man cannot have both.

4142. Then the subsequent export is nothing more than the export of so much of the capital or property of that individual?—Just so.

4143. But as far as the Bank of England are concerned, the only effect produced is, that the amount of their bullion in their Issue Department is so much diminished, and the amount of their notes is also diminished to an equivalent degree?—No doubt. The whole working of the Issue Department is, that they put forth Bank notes; the Bank notes perform all the purposes of money internally in this country; but if you want any portion of the money of this country to be used for external purposes, Bank notes will not perform those purposes, and you convert it into bullion, paying in the notes which are cancelled, and in place of them drawing out the bullion which is used as money for export.

4144. Must not the export of gold necessarily be limited to the power of individuals to bring Bank notes to pay for that gold, unless they have already a stock of that gold in their own possession?—No doubt. Bullion cannot be obtained from the Issue Department, but by paying in Bank notes.

4145. And when that power is exhausted the export must stop?—No doubt of it. By paying in the Bank notes you diminish the quantity of money in the country; there is a limit of the extent to which the country will bear that diminution; when you reach that limit the drain is stopped, and the increased value of money brings back the money into this country.

4146. It is exactly the same as the export of any other commodity?—Yes.

4147. Cannot you conceive a position in which a considerable export of bullion might take place without in the least affecting the reserve of notes in the Banking Department, which are held by them as prudent bankers for the management of their business?—No doubt the notes taken in for bullion may be taken in without a diminution of the Bank reserve, or if the Bank reserve be affected, it may be replenished by sale of securities, or by some other means of drawing notes into the Bank reserve.

4148. Then is it a necessary consequence of the export of bullion, that the banking business is in any way affected, or at least to any greater degree than the export of bullion, or the abstraction of capital from this country affects every banker and those who have any large dealings in monetary affairs?—The export of bullion from this country is a diminution of the quantity of money in this country, and a diminution of the quantity of money in this country must of course create a pressure upon the money market generally.

4149. Are you aware of any way in which the Bank is affected by the export of bullion different from that in which every other banker and every other dealer in money is affected?—Persons will never get a correct or simple view of these things until they accustom their minds to look at the Bank of England as they would look at the bank of Messrs. Smith Payne or Messrs. Jones Loyd, or any other firm upon a large scale; they conduct their business with the money existing in the country like everybody else. If the money in the country is dimi-

nished, the Bank of England and all other bankers, and everybody else, must feel the effect of it. If any pressure comes upon the Bank of England, they must realise their securities to meet that pressure, as all other bankers must. I have already stated in an early part of my evidence, that the Bank of England is only an ordinary banking concern on a large scale; its business must be conducted and regulated upon ordinary banking principles.

4150. Alluding to the question with respect to the legal tender of Bank notes, do you not think that the Bank would have discharged their duty perfectly when they had paid the dividends upon Government stock in Bank notes?—The question whether you pay in Bank notes or in gold seems to me to be puerile altogether: I am always speaking of the Bank of England as a banking concern, and I should say that the Bank of England ought to be authorised to use the Bank note as a legal tender in all cases, except as respects the Issue Department, that merely meaning that there must be an ultimate power of demanding gold for the note. Subject to the reservation of that ultimate power, all the other transactions of the country ought to be adjusted by the Bank note as a legal tender, and are so, in fact; if it is not the strict law, it is the established usage, which is better than the law.

4151. If the Bank of England were directed to make any large payment in the country, say 300,000*l.* or 400,000*l.*, do you think that, practically, any person would be entitled to refuse to give a receipt for such money when that money was tendered in Bank notes, on the ground that they were not a legal tender by the Bank?

—Of course, that is purely a legal question upon the construction of the Act. If it is not a legal tender by the Bank of England in its banking business, I think it is an imperfection in the state of the law, and an imperfection so clear that universal usage has corrected it. The Bank of England note, practically, for all purposes is a legal tender everywhere throughout the country, except by the Issue Department.

4152. Mr. *Fergus*.] Are you aware that Bank of England notes are not a legal tender in Scotland or in Ireland?—I do not know how that is.

4153. Do you think it would be advisable that they should be made a legal tender in Scotland and in Ireland?—Certainly; I think the Bank of England note ought to be made as universal in its character, and as universal an equivalent as it is possible to make it. I think that the Bank note should be treated and used as the sovereign.

4154. Sir *James Graham*.] And yet the Bank of England, being a bank of issue, subject to the limitation on which you rely with respect to the separation of the two departments is a bank of limited liability, is it not?—Do not let us mix up the question of issue. The Bank of England, carrying on a great banking business, is a chartered concern, and has limited liability; but that has regard to such an amount of property and security that it is a theoretical limitation, and one which can never by any reasonable supposition come into practical effect.

Tuesday, 14th July, 1857.

MEMBERS PRESENT.

Mr. Ball.	Mr. Hildyard.
Mr. Blackburn.	Mr. Hope Johnstone.
Mr. Cayley.	Mr. Martin Tucker Smith.
Mr. Ennis.	Mr. Spooner.
Mr. Fergus.	The Chancellor of the
Earl of Gifford.	Exchequer.
Mr. Gladstone.	Mr. Vance.
Mr. Glyn.	Mr. Weguelin.
Sir James Graham.	Mr. Wilson.
Mr. Hankey.	Sir Charles Wood.

The Right Hon. THE CHANCELLOR OF THE EXCHEQUER
in the Chair.

4155. Sir *Charles Wood*.] WILL your Lordship be good enough to refer to the Question and Answer 3953 ; in that answer you stated that the Issue Department belonged to the State, and you rather treated it as if it was no part of the Bank of England ; will you explain exactly what you meant by that?—It seems to me that that resolves itself into a technical question of words more than of substance. There can be no doubt of the fact that the Issue Department is placed under the management (if it can be called management) of the Bank of England ; it is conducted within the walls of the Bank of England ; it is managed by the clerks of the Bank of England ; and the Governor and Company of the Bank of England are responsible to the State for their obedience to the distinct

provisions of the Act, which they have mechanically to carry out. So far, undoubtedly the Issue Department is a department under the charge and management of the Governor and Company of the Bank of England ; but what I meant by that answer was, that the Issue Department is under the management and control of the Bank of England in a sense, and to an effect, totally and entirely different and distinct from the sense and effect in which the banking business of the Bank of England is under the control and management of the Governor and Company of the Bank of England. The banking business is subjected to their free discretion, and they bear all the responsibility of the consequences of the exercise of a wise or an unwise discretion in the management of it ; but not so, in the slightest degree, with regard to the Issue Department ; it is subjected to their management merely to carry out mechanically the positive provisions of the Act of Parliament ; and they are subject, in that matter, to no responsibility but that of faithfully obeying those orders. The separation of the Issue Department, completely and entirely, in every sense of the word, is the fundamental object and principle of the Act of 1844. Nothing can be more distinct or clear, than the words of the Act itself upon the subject, which are, that the Issue Department “ shall be separated, and thenceforth kept wholly distinct, from the general banking business of the said Governor and Company,” and at the end of that clause in the Act, it, *ex majori cautela*, reiterates the assertion: “ Provided nevertheless, that the said Issue Department shall always be kept separate and distinct from the Banking Department of the said Governor and Company.” Those are the words of the Act itself ; but the meaning and purport of those words is

still further illustrated, if we refer to the language used by the Treasury in its correspondence with the Governor and Company of the Bank of England, upon which that Act was founded. There you will find that they actually refer to the possibility that this Issue Department may be transferred elsewhere, and conducted by some other body; but they decide not to take that course, not, however, because they wish in any degree to modify the actual separation of the two departments, but simply from other considerations, and from the desire of not making the change greater than is absolutely necessary for the purpose in view. These are the words of the correspondence of Sir Robert Peel and Mr. Goulburn with the Governor and Company of the Bank: "It appears highly desirable that any new arrangement should be founded on the basis of an entire separation of the business of the issue of notes from that of banking. This measure might be effected by the establishment of a public department for the issue of notes, independent altogether of the Bank. But Her Majesty's Government are willing, in the first instance, to consider whether this can be effected by a division of the Bank into two distinct and separate departments, to conduct exclusively, one the business of issue, the other that of banking." It is on the ground of those terms, both of the Act, and as explained by the correspondence, that I say, looking to all rational meaning of the words, that the Issue Department is thoroughly and entirely separate and distinct from the Bank of England; always meaning by that the conduct of the banking business; and that it is so is shown by this very obvious fact: Suppose that the Issue Department was removed altogether from the walls of the Bank of England; suppose that it was

carried to the Mint, or carried to the Exchequer-office, or carried to the National Debt-office; or suppose that a separate and Special Commissioner was appointed for the purpose of conducting it, that would alter the form and appearance as to the hands in which it was placed, but it would not produce the slightest alteration of any sort or kind as to the actual progress of affairs in the Issue Department; and therefore, looking at the substance and reality of the thing; looking at the manner in which reasonable people would reason upon the subject, it is perfectly correct to say that the Issue Department has nothing whatever to do with the banking business of the Bank of England.

4156. It is, in point of fact, entirely removed from any control on the part of the persons who manage the banking business of the Bank of England?—The Bank of England have a full discretionary power in managing the banking business of the Bank of England; they have, with regard to the Issue Department, no discretionary power whatever. The law has provided for the management of the Issue Department, and the Bank of England is the simple mechanical instrument, the one wheel between the Act of Parliament and the result; nothing else whatever.

4157. Supposing it were removed from the Bank of England and placed under some other establishment, do you apprehend that that establishment would necessarily be paid in some way or another by the State?—The expenses of that establishment must of course be defrayed, and if it be an establishment separate from the Government, some profit to the person managing it must be awarded for his own remuneration. That is precisely the case with respect to the Bank of England. The mode of paying the Bank of England is complicated, because it

arises out of a great number of ancient habits and regulations which it was thought unwise to disturb, provided you substantially accomplished your result without it.

4158. So far as the management of the Issue Department or its effect upon the money of the country goes, it is perfectly immaterial in what shape it is paid for, whether by salary or by the profits of issue?—It is perfectly immaterial to everybody except the Chancellor of the Exchequer, who has to make the best bargain which he can.

4159. Does not the Bank of England perform other duties for the Government, such as the payment of dividends?—The Bank of England performs a variety of duties: all the various duties which can be included under the general term of transacting the banking business of the country.

4160. And for the performance of those duties of course it is only fair that it should receive some remuneration?—No doubt it is perfectly clear that the Bank of England (I am now speaking of it in its joint capacity as a bank of issue, and as conducting banking business) must be paid for the various duties which it performs; the form in which it is paid is a mere matter of detail, not in the slightest degree affecting any of the principles which we have to discuss upon this subject.

4161. In point of fact, the form in which it is paid is a remnant of the old system, and not perhaps that which would be established if it were to be begun afresh, and put upon what you would consider a better foundation?—No doubt; it is now in a complicated form, arising from a variety of successive bargains between the Government and the Bank, and they have never been simplified into one direct payment for the whole business.

4162. You do not conceive that it at all affects this question of the separation of the departments, that the profits, such as they are, of the Issue Department are blended with the allowance for the payment of dividends, which constitute, in point of fact, the principal part of the remuneration allowed by Government to the Bank of England?—The accidental form in which the Bank is remunerated for all the business which it does, really does not touch, in the slightest degree, the question between the Issue Department and the Banking Department. The clear distinct separation of those two departments in principle must be obvious to every reasoning person, and I cannot understand the meaning of persons who attempt to raise any complication or difficulty respecting it.

4163. Will your Lordship be good enough to refer to Question 3929? From that question and answer does it not appear that the whole coin in circulation of the country, together with the amount of paper circulation in the country, and the bullion which happens to be in the Issue Department of the Bank of England, are taken together as the currency of the country? Is that really your opinion, or is there some confusion from the use of the words “Bank of England” there?—I am exceedingly glad that my attention is drawn to that question and answer. I think that it is calculated to illustrate the difficulty to which witnesses are subjected who are called upon extemporarily to assent to, or to dissent from, every successive assumption which is placed before them, and that I was aware of that danger is clearly shown by the answer which I gave, namely, that I should like to have the calculation before me on paper, before I went into it. However, that request was not complied with, and I had to answer the question as it stood.

The next remark which I should make upon this question, is the extreme danger which arises to a witness from having assumptions introduced into the question, which assumptions are thoroughly inaccurate. As an instance of what I mean by that statement, I refer to this part of the question ; “ and to take your own view of the matter, namely, that bullion in the Bank of England is also part of the currency of the country.” Now, so far from that being my view of the matter, it is diametrically and distinctly opposed to all the principles which I have always advocated, and especially to those principles which I had pertinaciously repeated in my examination before this Committee. I had uniformly stated, that the bank notes out of the walls of the Issue Department were the representatives of the bullion lying in the Issue Department. I had again called them the shadow of the substance, and therefore it was not right in putting a question to me, to involve in that question the assumption, that it was my view of the matter, that the bullion in the Bank of England is also a part of the currency of the country. The bullion in the Issue Department, and the Bank notes issued against that bullion, cannot both be taken as part of the money of the country.

4164. Bullion in the Issue Department ?—It means the bullion in the Issue Department ; there is no bullion in the Bank of England. It is quite clear, that here “ bullion in the Bank of England,” means the bullion in the Issue Department. Now, I have uniformly stated, and repeated it almost to tediousness, before this Committee, that in my view of the matter, whilst the notes issued against the bullion are out of the walls of the Issue Department, the bullion which is in the Issue Department is not part of the money of the country ; that the notes are the representatives of the bullion ; that they are the shadow of the substance,

and that so long as those notes are out of the Issue Department, you cannot take the thing twice over, and consider the bullion which is in the Issue Department as part of the money of the country. The bullion in the Issue Department cannot be brought into the condition or functions of the money of the country, except by paying in the notes which represent it, cancelling those notes, and thus converting the bullion into part of the money of the country.

4165. If you treated the bullion in the Issue Department, and also the notes out of the Issue Department, issued upon that bullion, as both constituting a portion of the circulation of the country, would you not, in point of fact, reckon the same amount twice over, and add to that which would be the amount of money, in the event of a purely metallic circulation, the whole amount of notes issued upon that bullion?—There is no doubt of the accuracy of the principle involved in that question. The notes are the mechanical convenient representatives of the bullion in deposit, and you may either consider the notes, whilst they are out, as the money of the country, or if you choose to pay in the notes, and get the money which they represent, namely the bullion; by so doing, you make the bullion the money of the country, but you cannot use them both; it is using the same thing twice over. Now, it is this very fallacy which misleads that class of persons who, when there is a monetary pressure, complain, and, as they think, with obvious reason, that any pressure should be permitted to fall upon the monetary system, whilst there is 8,000,000*l.* or 10,000,000*l.* of bullion lying in the Issue Department. They are misled solely by not considering and understanding that if the bullion is lying in the Issue Department, that which represents the bullion is circulating amongst the public, and that you cannot bring out the

bullion without putting into its place its representative, the Bank note. You cannot by any contrivance whatever have the same thing twice over.

4166. The bullion, in point of fact, cannot be brought into the circulation of the country, unless the notes are first sent into the Issue Department, and bullion is taken out thereupon?—Precisely; there is no doubt of that fact.

4167. *Chairman.*] I understand you to complain of your meaning having been misrepresented in Question 3929, where the question has implied it to be your view of the matter that bullion in the Bank of England is a part of the currency of the country?—Yes.

4168. Let me refer you to Questions and Answers 3879 and 3880; the first question is, “What do you include in the term, ‘currency;’ do you include the notes and coin in the hands of the public only, or do you include the coin in the Bank of England as well?” The answer is, “I consider the Bank of England as a very important personage amongst the public; I know no difference between the Bank of England and my own bank, so far as that is concerned.” The next question is, “Do you include the bullion in the Bank of England as part of the currency?” The answer is, “Yes.” That answer, taken by itself, would naturally lead anybody to the inference that the bullion in the Bank, according to your conception, is part of the currency, would it not; and until your Lordship’s language came to be explained, namely, that the Issue Department is not a department of the Bank, would it not naturally create a misunderstanding?—I prefaced my examination in a very early stage of it by stating, that I intended uniformly, when I used the term “Bank of England,” the Banking Department of the Bank of England; that when

I meant to speak of the Issue Department, I should endeavour to use that expression. It is possible there may have been some lapsus in some part or other of my examination, but I am inclined to think not. Now, it is perfectly clear, in Question 3929, that this question means, and has reference to the bullion lying in the Issue Department. When you speak of the small quantity of metallic money which is in the Banking Department, you speak of coin; you do not speak of bullion; and it is so small a sum that it really is altogether an evanescent quantity in discussing any principle. It is like the small change in each man's pocket; it really has nothing to do with a discussion of the principles of the question.

4169. If a person says that the bullion in the Bank of England is a part of the currency, does not that, without further definition, naturally lead to the inference that the bullion in the Issue Department is part of the currency, inasmuch as, according to the language of the Act, and according to generally received language, the Issue Department is a department of the Bank of England?—It might mean that in the mouth of a person who had not begun his examination by stating distinctly that when he spoke of the Bank of England, he spoke of the Bank Department.

4170. Sir *Charles Wood*.] Have the goodness to look at Questions and Answers 3897 and 3898. Were you not asked in those questions whether you were aware that it was a fact that previously to the Act of 1844 the Bank of England had kept an account in the same form as that which has since been given to the public?—Yes; these two questions refer to some supposed course on the part of the Bank of England of endeavouring to make out, for their own information and guidance, an account of the transac-

tions of the Bank before 1844, upon the principles subsequently laid down by that Act. I stated that it was very possible and very natural that, as a tentative thing, the Bank Directors might have made out such an account for their own assistance and guidance; but any memoranda of that sort which the Bank Directors, or anybody else, may make out for their own guidance, have nothing whatever to do with the discussion of a public question of this sort, and of the practical results to flow from the principles. The only account of importance is that account which is put forth under authority, for the information and for the guidance of the public. It is quite possible, perhaps not improbable, that the Bank at this moment may be keeping, for their own amusement and instruction, an account, in the old blended form, to see how that account would contrast with the accounts as now published; that this perfectly possible, and I must say that I cannot come to any other conclusion than that some persons do, for their own guidance, keep an account in that blended form now, for it is upon that supposition only that I can possibly understand the extreme confusion and obscurity which prevails in the minds of some persons upon a subject perfectly simple and clear, if they will look at the separate accounts.

4171. Would it not be perfectly possible for any one of us, from the papers before us, to make out an account of the Bank affairs for former periods, in the form which is now given to the public?—There is no doubt that a great deal of instruction may be derived from making out accounts in a form different from the published accounts, and seeing the effect. As we go on with this discussion, I shall make use of that process myself, and I think that I shall be able to show that a great deal of instruction is to be

derived from it. I shall apply the accounts published under the Act of 1844 to the periods of monetary pressure and embarrassment before 1844, and I think the Committee will then very clearly see what would have been the benefits which would have arisen to the country if the accounts, as they are now made out, had then been made by authority, and published to the country for their instruction.

4172. Would not, in point of fact, the addition of 14,000,000*l.* to the amount of bullion which at any time appeared in the Bank accounts, give a correct account of the amount of notes which could at that time have been out of the Issue Department, upon the principle now enforced by law, and shown in the account as now made out?—There is no doubt that that is the case; and when we come to discuss former periods, I shall be prepared to show the practical application of it, and the advantage to be derived from looking at the subject in that point of view.

4173. You stated in the evidence which you gave both on the last occasion and on the preceding day, that in your opinion the issue of the paper money of this country had on many occasions been in a most unsatisfactory and dangerous state previously to 1844?—I did.

4174. You stated, I think, that you were prepared at that time to go into the various instances, but your attention was then directed to what took place in the year 1847 and subsequently. Are you now prepared to state at what times previously to 1844 you consider that the issue of paper was in a very unsatisfactory state?—I certainly stated to the Committee that if the periods of monetary pressure which this country has undergone on various occasions were carefully examined, it would be found that those periods present to the community very instructive lessons and

very serious warnings; that the evils which then arose would be found to be intimately connected with the absence of the provisions of the Act of 1844; that it would be clear that had the provisions of the Act of 1844 been then in operation, the evils which occurred at those periods could not have occurred; and in the course of the same investigation they would find abundant continuous instances of excessive issues by banks, made at their own discretion and will, in obedience to the supposed wants of customers, over-issues in both senses of the word, namely, an absolute increase in the amount of paper issues when the bullion was undergoing a heavy diminution, and a maintenance of the paper issues at an undiminished amount, whilst the rapid diminution of the bullion required a contraction of the paper issues. Those two are, both of them, instances of over-issue, different in form, but substantially the same in principle. In going into such an inquiry, I must ask a little of the patience of the Committee, because it necessarily runs over a lengthened period. I will make it as brief as it can possibly be made, and I am quite certain of this, that if it is not both interesting and instructive, the fault rests entirely with me, and not with the matter.

4175. What are the periods to which you allude?—The periods to which I allude are 1783, 1793, 1797, 1800, 1808–9, 1825, and 1833 to 1837, contrasted with the state of things subsequent to 1844.

4176. Will you state how the issues of paper money in your opinion operated in the year 1783?—In 1783 and 1795, a severe exhaustion of the bullion was surmounted, and the exchanges were effectually stopped by a resolute and extraordinary degree of contraction of the circulation. My authority upon that point is Mr. Tooke, in the third

volume of his "History of Prices," p. 71. These are his words: "The large and long-continued balances against us of foreign payments, which, on two memorable occasions, previous to the Bank Restriction Act, nearly exhausted the stock of bullion before the exchanges had turned, were plain and palpable causes, and so obviously violent in their operation, that it is matter of wonder they could be counteracted and surmounted, for surmounted they were, and the exchanges were effectually turned by a resolute and extraordinary degree of contraction of the circulation. I allude to the instances in 1782-3 and 1795-6." Now the Committee will observe, that here is an emphatic declaration of the contraction of issues effected by the will of the issuer; here is clearly the principle of the Act of 1844 applied by anticipation; namely, the contraction of issues as a means of counteracting, and effectually counteracting, a very severe drain of bullion; and you find that by carrying out those principles, which are the principles of the Act of 1844, the drain was ultimately stopped. But these principles in that case were carried out late and tardily, and not in the early stage which the provisions of the Act of 1844 would enforce, and therefore, you had, previously to the effectual stoppage of the drain, a severe exhaustion of the bullion. That seems to me to be as regards those two periods, a clear, distinct, practical proof of the power of a bank to contract its issues; of the exercise of that power, and the stoppage of a drain by the exercise of that power, perfectly coincident with the principles of the Act of 1844, and at the same time a severe exhaustion of the bullion before you stop it, solely because the principles of the Act of 1844 were not in that case applied as early as they ought to have been.

4177. What is the next period to which you refer?—The next period to which I refer is 1793, in which a great destruction of bank paper, occasioned by contraction of the currency, consequent to its previous over-issue, took place. Upon that point my authority is Mr. M'Culloch. In his well-known article "Money," appended to his edition of Adam Smith, there is this passage. It is not quite so short as I could wish it to be, but I really think it is very instructive. "The first great reduction of country bank paper, arising from a contraction of the currency consequent upon its previous over issue, took place in 1793; and the circumstances attending this crisis are so remarkable, and afford so striking an illustration of what has now been stated, that they deserve to be carefully investigated. Previously to 1759 the Bank of England had not issued any notes for less than 20*l.*: but having then commenced the issue of 10*l.* notes, its paper was gradually introduced into a wider circle, and the public became more habituated to its employment as money, in their ordinary transactions. The commercial distress and embarrassment that grew out of the American War, proved exceedingly unfavourable to the formation of country banks, or of any establishments requiring an unusual portion of credit and confidence. No sooner, however, had peace been concluded, than everything assumed a new face. The agriculture and commerce, and still more the manufactures of the country, into which Sir Richard Arkwright's inventions had been lately introduced, immediately began to advance, with a rapidity unknown at any other former period. In consequence, that confidence which had either been entirely destroyed, or, at all events, very much weakened by the disastrous events of the war, was fully re-established. The extended transactions

of the country required fresh facilities for carrying them on ; and, in consequence, a bank was erected in every market town, and almost in every village. The prudence, capital, and connexions of the individual who set up these establishments, were but little attended to. The great object of a large class of traders was to obtain discounts." Now mark how far the regulation, by wants of customers, is a safe principle. " And the bankers of an inferior description were equally anxious to accommodate them. All sorts of paper were thus forced into circulation, and enjoyed nearly the same degree of esteem. The bankers, and those with whom they dealt, had the fullest reliance on each other. No one seemed to suspect that there was anything hollow or unsound in the system. Credit of every kind was strained to the utmost ; and the available funds at the disposal of the bankers were reduced far below the level which the magnitude of their transactions required to render them secure. The catastrophe which followed was such as might easily have been foreseen. The currency having become redundant, the exchanges took an unfavourable turn in the early part of 1792 ; and the Bank of England having been, in consequence, obliged to narrow her issues, a most violent revulsion took place in the latter part of 1792, and the beginning of 1793. The failure of one or two great houses excited a panic, which proved fatal to myriads more. When this revulsion began, there were it is supposed, about 350 country banks in England and Wales, of which about 100 were compelled to stop payments, and upwards of 50 were totally destroyed, producing by their fall an extent of misery and bankruptcy that had, until then, been unknown in England. ' In the general distress and dismay,' says Mr. Macpherson, ' every one

looked upon his neighbour with caution, if not with suspicion. It was impossible to raise money upon the security of machinery, or shares of canals; for the value of such property seemed to be annihilated in the gloomy apprehension of the sinking state of the country; its commerce and manufactures, and those who had any money, not knowing where they could place it for safety, kept it unemployed and locked up in their coffers. Amidst the general calamity the country banks, which had multiplied greatly beyond the demand of the country, for circulating paper currency, and whose eagerness to push their notes into circulation had laid the foundation of their own misfortunes'' (where was the regulating influence of the wants of customers?) ''were amongst the greatest sufferers, and consequently, among the greatest spreaders of distress and ruin among those connected with them; and they were also the chief cause of the drain of cash from the Bank of England, exceeding any demand of the kind for about 10 years back. Of these banks above 100 failed; whereof there were twelve in Yorkshire, seven in Northumberland, seven in Lincolnshire, six in Sussex, five in Lancashire, four in Northamptonshire, four in Somersetshire, &c. Attempts have sometimes been made to show that this crisis was not really occasioned by an excessive quantity of unsubstantial paper currency having been forced into circulation, but by the agitation caused by the war which then broke out. But there do not appear to be any good grounds for this opinion. The natural and unavoidable consequences of a previous overflow of paper, a fall in the exchanges, and an exportation of bullion, took place early in 1792, or about 12 months before the breaking out of hostilities. And it is distinctly stated by Mr. Chalmers, that none of the great

houses that failed during this crisis had sustained any damage from the war." "The efforts of the country bankers" (this is Mr. Chalmers) "to force their paper into circulation had principally occasioned the redundancy of the currency." I apprehend that that is quite sufficient upon the subject of the state of the currency at that period. It clearly shows the tendency of banks to over-issue in a period of excitement, and the inevitable results which follow from such over issues, if they are not subjected to such a restraining principle as the Act of 1844 applies to them.

4178. What is the next period to which you refer?—The next period to which I refer is 1797. Mr. Tooke distinctly states, referring to this period, that had the Bank continued to suppress notes as the gold went out, the crisis would have been got over. There, I apprehend, is a distinct statement of the principle of the power of a bank to contract its notes, or, in other words, to cancel them as they are paid in for gold; and a distinct statement of the principle that, had they been cancelled, which is the application of the Act of 1844 to that period, the crisis would have been got over. It seems to me to be a distinct statement, that had the Act of 1844 been applied to the great crisis of 1797, the crisis would have been got over. In other words, we should have escaped the suspension of specie payments.

4179. During all these periods the Bank note was by law convertible into bullion?—During the whole of this period the Bank notes were convertible at the will of the holder; but I am bound to say that, with regard to that period of 1797, there are circumstances which may make it doubtful whether the Suspension Act was not a justifiable measure. The pressure in 1797 was undoubtedly, to a

considerable extent, connected with political alarm, with the fear of foreign invasion, causing an internal demand for the exchange of notes into coin ; under such circumstances there is no measure founded upon principle which can pretend to afford a sure protection. If, for instance, at this moment this country were suddenly exposed to the calamity of a very large foreign force occupying its soil, or if it were exposed to the calamity of a very formidable and serious civil insurrection, no doubt a state of panic alarm, with regard to the paper money might arise, against which no provisions of the Act of 1844, nor any provisions founded upon principle, could possibly afford an adequate protection. But from that view of the subject, again, there is an inference to be drawn of a very instructive and warning character, namely, to make this Committee very cautious how they extend the issues upon securities. The only protection against such contingencies is the existence of a large amount of coin, or of bullion, in the country ; and, therefore, when we are looking to contingencies of that nature, we may very properly pause at the questionable recommendation of increasing our issues upon securities, which is, in other words, diminishing our issues upon bullion. [It was the opinion of Mr. Ricardo, that the crisis of 1797 was the result of internal panic, against which no measures for the regulation of the currency, founded upon general principles, can afford any certain protection. In all such cases, the only source of security must be the retention of such an amount of bullion in the country as shall be sufficient, not only to meet the demand through the foreign exchanges, which is susceptible of effectual regulation and restraint, but also the internal demand which may arise from political alarm and domestic

panic, and which can only be overcome by continuing to pay out gold until the panic may subside. The only means of preparation for such emergencies is a large metallic reserve, which cannot be maintained unless the amount of paper money issued upon securities be confined within moderate and safe limits. "Are you of opinion that the Bank could have permanently continued their payments in specie from the year 1797, when they discontinued to do so?—It appears to me that all banks are subject to be affected by panics, against which no prudence can guard, and that in 1797 such a panic had taken place; but I have some doubts whether, if the Bank had resolved to pay to their last guinea, that panic would not have subsided, and the Bank have been able to carry on its transactions in the way that it had done up to that period."—*Ricardo's Evidence*, March 4, 1819, p. 140.

"On extraordinary occasions a general panic may seize the country, when every one becomes desirous of possessing the precious metals as the most convenient mode of realising or concealing his property. Against such panics banks have no security, *on any system*. From their very nature they are subject to them, as at no time can there be in a bank, or in a country, so much specie or bullion as the monied individuals of such country have a right to demand. Should every man withdraw his balance from his banker on the same day, many times the quantity of bank notes now in circulation would be insufficient to answer such a demand. A panic of this kind was the cause of the crisis of 1797; and not, as has been supposed, the large advances which the Bank had then made to Government. Neither the Bank nor Government were at that time to blame; it was the contagion of the unfounded fears of the timid part

of the community which occasioned the run on the Bank, and it would equally have taken place if they had not made any advances to Government, and had possessed twice their present capital. If the Bank had continued paying in cash, probably the panic would have subsided before their coin had been exhausted.—*Ricardo's Proposal for an Economic and Secure Currency*, p. 29.]

4180. What is the next period to which you refer in illustration of the position which you laid down in your early answer?—The next period to which I draw the attention of the Committee is 1800. It was at this period that the first real fall in the value of Bank paper compared with gold, arose; and it was at this period that that experiment was tried, which some persons have recommended to this Committee, of meeting the drain arising from the payment for imported provisions solely by paying out gold against it. The authority to which I refer upon this subject is again Mr. M'Culloch, in his article "Money," page 65. "The first fall in the value of Bank paper, as compared with gold, began in the latter part of 1800. The deficient harvest of that year caused a considerable exportation of the precious metals; but instead of contracting their issues, as they ought to have done had they acted on sound principles," (that is, on the principles of the Act of 1844 observe), "and as they would have been obliged to do, had they been paying in coin, the Directors added to the quantity of their notes afloat, and the consequence was that they fell to a discount of about 8 per cent. as compared with gold bullion. But they soon after recovered their value; and from 1803 to 1808, both inclusive, they were only at a discount of 2*l.* 13*s.* 2*d.* per cent. In 1809 and 1810, however, the Directors seem to have lost sight of every prin-

ciple by which their issues had previously been governed. The average quantity of Bank notes in circulation, which had never exceeded $17\frac{1}{2}$ millions, nor fallen short of $16\frac{1}{2}$ millions in any one year, from 1802 to 1808, both inclusive, was in 1809 raised to 18,927,833*l.* and in 1810 to 22,541,523*l.* The issues of country bank paper were increased in a still greater proportion." Now the Committee will observe that this enormous extent of increase from $17\frac{1}{2}$ millions to $22\frac{1}{2}$ millions, independently of the still greater proportion in which the country issues are stated to have been increased, applied entirely to issues put forth by the will of the issuer in obedience to the supposed wants of customers; and that these issues were, notwithstanding those supposed checks upon them, issues in excess, is clearly proved by the depreciation of the Bank note which ensued. Now it is perfectly true that during this period the Bank note was not convertible, and no doubt upon a superficial view of the question, you may think that it is an answer to say that it is not a case in point; because during this period the note was not convertible upon demand. But so far as regards the question of the demands or wants of customers being a safe principle for regulating and limiting the amount of issues, the convertibility of the note has nothing whatever to do with the question. The demands of customers are for that which will with them perform the functions of money. The convertibility of the note may be a restraint upon the issuer, because it leaves him subject to a serious obligation, and may therefore make him cautious as to the extent to which he puts out his issues. But when we are speaking of the wants of customers, or the demand of trade, as a safe regulator of issues, the convertibility of the note has nothing whatever to do with the

question. What they demand and want is, that which will perform for them the functions of money; they want that which will be to them a universal equivalent; a universal power of purchasing other things, and the convertibility of the note does not, as regards that part of the question, at all enter into it.

4181. To what period would you next refer?—The next period to which I should refer is one which I cannot pass over, namely, the great period of 1819. At that time, as everybody knows, the resumption of cash payments was ordained; it was then that Sir Robert Peel introduced that Act by which he restored the money of this country to its honest value. Now, a large body of persons, who are opponents of the Act of 1844, boast loudly of their uncompromising approval and support of the Act of 1819. I should be glad to have some of those persons as witnesses in my situation, and to be allowed to put a few questions to them. Upon what principle do they support the Act of 1819, and repudiate the Act of 1844? Upon what principle does Mr. Tooke approve of the Act of 1819? That I will give you in his own words: “The merit of this measure consisted in the sanction which it afforded to the principle, that the Bank has the power, by the regulation of its issues, to preserve the value of its paper on a level with that of gold.” I submit to the Committee that that is as plain and as emphatic a declaration of the power of a bank, and especially of the Bank of England, to regulate its issues by its own will, as can possibly fall from the lips of man; and I would ask those persons who are now maintaining that the Bank has no power by its mere will to regulate its issues, upon what ground they support the Act of 1819? Do they support it upon the ground of the prin-

ciple here laid down by Mr. Tooke? If they do, how do they reconcile that principle with the doctrines which they are now endeavouring to enforce upon this Committee? If they do not support it upon the ground on which Mr. Tooke has placed it, I should be then very glad to know upon what intelligible ground they do rest their justification of the Act of 1819, and their repudiation of the provisions of the Act of 1844. It was with a view to making that remark, and bringing that very rational and sound passage of Mr. Tooke under the notice of the Committee, that I referred to the period of 1819. [In all the discussions and in all the evidence before the Parliamentary Committees which preceded the Bill of 1819, the power of the Bank of England to regulate its issues, increasing or decreasing them at its own will, was assumed throughout, and the great measure of that year for the resumption of cash payments was founded on this principle.]

4182. What is the next period subsequent to 1819, to which you would refer as an instance of mismanagement in the issues of paper money in this country?—We now arrive at the great crisis of 1825, and here we must come to close quarters with our opponents. The amount of notes out of the Bank in August 1823, has been compared with the amount out in August 1825, for the purpose of showing that between the time of depression and excitement there was no increase whatever in the amount of Bank of England notes out; the figures given are as follows: 1823, August, Bank notes out, 19,231,000*l.*, bullion 12,658,000*l.*; 1825, August, Bank notes out, 19,398,000*l.*, bullion 3,634,000*l.*; and it is further added that there is no positive evidence of the amount of country issues, but that there is presumptive evidence that it must rather have diminished. I cannot

refrain from expressing my utter amazement at this statement ; it is erroneous, and calculated to lead to erroneous conclusions in the fullest sense of the word. First, as regards the issues of the Bank of England ; no reference in this statement is made to the suppression of 1*l.* notes, and the substitution of coin for the 1*l.* notes, which was then in progress ; or rather this consideration is slurred over by the astounding statement, that whether they are 5*l.* notes or 1*l.* notes makes little or no difference as to the argument. The Committee will not fail to observe, that it was not the substitution of 5*l.* notes for 1*l.* notes, which was then going on ; that was a process mechanically impossible, it was the substitution of sovereigns in the place of 1*l.* notes ; the substitution of metallic money in the place of paper money. Upon this point Mr. Tooke has much clearer views than those who boast of being his followers appear to entertain. He could perceive a great difference in the argument, whether they were 1*l.* notes or 5*l.* notes. Speaking of another period, but with reference to precisely the same argument and the same kind of facts, he makes this remark : “ The amount of such issues, including the notes under 5*l.*, as it stood prior to 1820, has been adduced in comparison with the amount of the circulation at subsequent periods, minus the small notes, and without allowing for the substitution.” Does he say of 5*l.* notes ? No ; “ and without allowing for the substitution of sovereigns, in proof of the alleged great contraction of the currency and its necessary consequence, the great fall of prices.” There is a clear and a perfectly rational distinction, that where 1*l.* notes are under the process of suppression, their place is taken by an increase of the metallic money of the country ; and that, therefore, in taking any comparative view of the

amount of paper money at two different periods, the amount of 1*l.* notes at those two periods must be struck out, if those 1*l.* notes are under the process of suppression. Now, let us look at this question fairly stated: 1821, August, Bank notes out, 20,295,000*l.*; 1825, August, Bank notes out, 19,398,000*l.* Here we have an apparent decrease of bank notes between 1821 and 1825, of about 1,000,000*l.* But Bank notes of 5*l.* and upwards, out in August 1821, were 17,747,000*l.*; bank notes, under 5*l.* at that period, 2,548,000*l.* Bank notes of 5*l.* and upwards out in August 1825 were 19,000,000*l.*; bank notes under 5*l.* were reduced to 396,000*l.* The account, then, when fairly and candidly analysed, shows an actual increase of Bank of England notes of about 1,250,000*l.* This course of things, it is well known, ended in the entire exhaustion of the bullion in the Bank of England. How would matters have stood (and to this I beg to draw the pointed attention of the Committee) if the provisions of 1844 had then been in force. In August 1825 the bullion was 3,634,000*l.*; the notes, had the provisions of the Act of 1844 been then in force, which would have been issued upon securities, would have been 14,000,000*l.*, making the total issue of notes 17,634,000*l.* But at that time the actual amount of notes out of the hands of the Bank of England was 19,398,000*l.* Here then we have nearly 2,000,000*l.* of notes actually out of the Bank of England, beyond the amount which could have been issued had the Act of 1844 been then in force; and this without making a reserve of a single bank note in the till of the Bank for the conduct of its business. In this stage of the discussion I must ask the permission of the Committee to read to them a paragraph from the pamphlet of Mr. Arbuthnot, a pamphlet which I cannot allude to

without strongly recommending every member of the Committee to give to it a careful perusal. I am sure it will enable them to see through many of the fallacies, and to estimate, with much greater correctness, the weight which is due to many of the considerations which have been urged upon their attention. "With these figures before the writer, he has failed to observe the important fact that the apparent diminution of the circulation of the Bank of England was owing to the withdrawal of 1*l.* notes," (the statement "before the writer" is the statement which I have recently made to the Committee) "and the substitution for them of gold coin within the district of its exclusive privileges, and that the circulation of Bank notes and bills of 5*l.* and upwards, in 1825, the only point of just comparison, shows an increase of 1,255,430*l.* over that in the corresponding period of 1821. But this is not all; the writer refers to a period of the year 1825, when a considerable contraction of the circulation, the forerunner of the impending crisis, had already taken place. The returns of an earlier month, previously quoted, would have afforded a more conclusive comparison," (I am obliged to alter one or two words, because I am not allowed to refer to the individual), "and he had before him a statement, from which it appears, that on the 28th of February, 1825, the amount of notes of 5*l.* and upwards and post bills issued by the Bank of England was 20,337,030*l.*, being an increase of no less than 2,889,670*l.* over the amount of these instruments in the corresponding month of 1821." Again, "an omission has been made, to bear in mind the excessive issues by country banks in 1825, increasing simultaneously with those of the Bank of England, to the extent of about 33 per cent." Is it not clear, I would

put it strongly to the Committee, clear to demonstration, that had the provisions of the Act of 1844 been in force during the period of 1824 and 1825, the correctives would have been applied at a much earlier period, the drain would have been checked long before the bullion had been reduced even to 3,600,000*l.*, and monetary alarm and difficulty would not have been superadded to mercantile and trading embarrassment at that period. In the spring of 1825, let me remind the Committee, Mr. Huskisson emphatically warned the public that the exchanges were then in an unsatisfactory and unsafe state; but this warning from him passed unheeded as the sound of the wind. Now this would have been impossible if the Act of 1844 had been then in force. A large share of the disasters of 1825 may thus be distinctly traced to the absence of the early and firm restriction which the Act of 1844 would have imposed on the excessive issues of paper money at that period as, on the other hand, the efficient operation of that Act during recent pressure has preserved the bullion from the exhaustion of 1825, and has saved the trading community from a large portion of the disasters which characterised that period. But the case does not terminate here; far from it. We have yet the question of the country issues to deal with. They, forsooth, were not increased, but rather there is presumptive evidence that they were diminished at that period; such is the proposition intimated by the course of examination which has been pursued before this Committee; he must be a reckless man who makes that assertion. Will any one, who had personal knowledge of the state of monetary affairs at that period, venture to say that there can be the slightest doubt as to the immense increase of the country issues previously to 1825.

4183. What account have you of the increase of country notes during that period?—It is well known that Mr. Tooke estimated the increase of the country issues at that period at 7,000,000*l*. Lord Liverpool formed the more sober estimate of 4,000,000*l*. I will, however, in answer to the question which has just been put to me, read to the Committee the authorities upon that subject. Mr. Tooke published an elaborate and well-known pamphlet for the purpose of proving, as I have stated, that the issues at that time underwent an increase of 7,000,000*l*.; that probably was an over-estimate, though upon that point there may be doubt. But the first person whom I call as a testimony on that subject is the Prime Minister, at that time, the late Lord Liverpool, a man well known to have been peculiarly conversant with those subjects, and of course, from the extraordinary events of that period, he was called upon to apply to them the most careful investigation. These are his words: “Speculations in trade had been the origin of the evil, but it would not have been so extensive if it had not been aided by the state of the currency. Between 1824 and 1826 this species of circulation (country issues) had been actually doubled; this was a most material fact, and proved the continuance of the increased issues of the country banks after the Bank of England had contracted its issues to a very considerable amount. Whatever reduction of the paper circulation was effected by the Bank of England (in 1825) was more than made up by the issues of the country banks.” That is the statement of Lord Liverpool, publicly, in the House of Lords, in a debate upon the crisis of 1825, which occurred on the 17th of February, 1826. The next authority to which I appeal, is that of Lord Lansdowne; Lord

Lansdowne brought to the subject all the experience to be derived from his having been Chancellor of the Exchequer. He was placed at that time in a position of political opposition to Lord Liverpool, when his peculiar duty was to watch every statement of the Minister with the most suspicious vigilance, and to take care that no statement open to question was allowed to pass unquestioned. Did Lord Lansdowne dissent from this statement of his opponent? On the contrary, he entirely confirmed it. These are his words: "It was manifest that between the currency and speculation there was a mutual action and reaction. He found an issue from the Bank increasing in the ratio of 8 per cent. from 1824; he also found in 1825, after the Bank issues had increased, that the issue of country bank notes had been increased about 33 per cent.; gold, in consequence rapidly left the country." The next authority which I quote is the very highest mercantile authority at that time, the late Lord Ashburton, then Mr. Alexander Baring, at the head of the largest mercantile concern in England. He declares that at this time the country was saturated with paper money, for pushing out which the country banks and the Bank of England were answerable. The next authority which I appeal to is the authority of history. I appeal to the "Pictorial History of England;" a work of considerable repute and authority. What do they say, having investigated all the evidence of that period, and formed a conclusion which they can state as a matter of history?—"The Bank of England went on increasing its issues through the whole of 1824, and for three months of the next year. Between June 1824 and October 1825, from ten to twelve millions of coin and bullion were exported, and during the greater

part of that time the Bank was still putting out its notes ; and the provincial banks issued as many as they could, till the country was deluged with paper money. In 1825 there was from 30 to 40 per cent. more paper money out than in 1822." I would only refer to one further authority, and I refer to it because it may be thought a more impartial authority, being that of a foreigner. I appeal to the authority of Monsieur Gautier, who at that time was a peer of France, also Deputy-Governor of the Bank of France, and was a writer of considerable eminence on these subjects. Of course, such a crisis as that of 1825 to a person in that situation must have been the subject of vigilant observation : and here is the result of his investigation : " Une autre crise plus violente encore commença en 1824. L'année précédente la spéculation avait pris un essor exagéré et imprudent. Les banques particulières, toujours avides de s'arracher les unes aux autres les bénéfices que des circonstances semblables font naître pour elles, s'étaient livrées à des émissions excessives. Il en résulta un trop plein dans la circulation, et le cours des changes s'étant fort dégradé, une tendance à épuiser la réserve en or de la banque commença à se manifester." Now, in the face of the universally acknowledged notoriety of the fact of the excessive state of the country issues at that time, and in the face of all the authorities which I have now quoted, publicly made in every possible way, and never disputed by any one single person whatever at that period, we are gravely told that we have no official return at this moment, of the country issues in 1825 ; and, therefore, the Committee is advised by high financial authority, that it is bound to come to the conclusion that upon the whole there is presumptive evidence that they were even some-

what diminished. This seems to me to be about as unreasonable as it would be were I now to tell you that we are not sitting in the full light of day, but that there is presumptive evidence that we are at this moment, notwithstanding the notoriety of our position, really sitting in the dark, because no one can produce before you the official certificate of the Astronomer Royal that the sun rose this morning at its proper hour.

[To these authorities I am glad to be able to add that of Mr. G. W. Norman, of no little weight, both on account of his great intelligence and his extensive experience, at that time, as an active Director of the Bank of England.

Do you apprehend that there was a great increase of the notes of country bankers between 1822 and 1825?—I should think an immense increase. I have heard it computed at about six millions or eight millions.

Would you ascribe to that a great part of the speculation which accompanied that period?—Yes, so far as the excitement may have depended on an increase of currency. —*G. W. Norman's Evidence, 1832, Questions 2666-7.*]

4184. Will you now be good enough to refer to the period from 1833 to 1837, which I think was the next monetary crisis which took place in this country?—The next period of great monetary importance is no doubt the period from 1833 to 1839. The same argument has been pressed upon the Committee with respect to this period as that which we have been discussing with respect to the period of 1825, and it has been accompanied with the same remarkable omission of a most important fact. The case laid before the Committee I believe is this: In January 1834, the aggregate circulation of the country was 37,855,000*l.*, the bullion 9,952,000*l.* In January 1836, the aggregate cir-

culation was 37,779,000*l.*, and in January 1837 the aggregate circulation was 38,549,000*l.*, the bullion having been reduced to 3,990,000*l.* The inference which it is proposed that we should draw is this, that therefore an increase of trade or an increase of speculation does not necessarily lead to an increase of notes in the hands of the public. Such is the reasoning which I have been given to understand has been gravely presented to this Committee; but what is the suppressed fact? In September 1833 the aggregate circulation was 36,035,000*l.*; in December 1837 it was 36,163,000*l.*, therefore there was no material increase in the aggregate circulation of the country during this period. But what is the reply to this? I will not give it to you in my own words; I will only repeat words which the Committee have already heard. "In April 1836 the aggregate circulation went up to 39,500,000*l.*, and in the interval there had been failures and great discredit of those banks." To this rather inconvenient fact a reply is set up that it is attributable to the payment of the dividends in the month of April: but Ithuriel's spear is again at work. "I see that only 600,000*l.* of that increase is due to Bank of England circulation." Now here I submit to the Committee that two extreme points are taken, at which the aggregate circulation appears to have been pretty much the same; and the conclusion (wholly unfounded and fallacious) is drawn, that there has been no variation in the intervening time. If there has been excitement in that intervening time, it is attributed to the date which gives the figures that suit the arguments. Enough, I think, has been said to enable the Committee to form a just estimate of this mode of reasoning. But it remains for us now to consider the events of this period, with reference to what

would have been the effect of the Act of 1844 had it then been in force. The periods of crisis were 1837 and 1839. How would the Act of 1844, if then in force, have worked? And to this I draw the pointed attention of the Committee, because really in it consists the whole question which they have to decide. In February 1837, the bullion was 3,938,000*l.*; the advance upon securities, had the Act of 1844 been in force, would have been 14,000,000*l.*, making a total issue, if the provisions of 1844 had been in force, of 17,938,000*l.* But the actual notes out of the Bank of England, and without making any reserve in the till with which the Bank should work its own business, were 18,535,000*l.* Again, in August 1839, the bullion was 2,444,000*l.*; the amount issued upon securities by the provisions of the Act of 1844, 14,000,000*l.*, would have made a total issue of 16,444,000*l.*; but the actual issues again at that time, with no reserve for the banking purposes of the Bank of England, were 18,014,000*l.* From these statements, I submit to the Committee, it is perfectly clear that the Act of 1844 would have imposed an early and most salutary restraint upon improper and mischievous over issues, and would have rendered it impossible that monetary affairs should have reached the disastrous extremity to which, in the absence of the provisions of that Act, the country was reduced.

[The probable effect of the application of the principles of the Act of 1844 to the crisis of 1837 and 1839 was fully discussed, in my evidence given before the Committee in 1840; and subsequent experience under the operation of the Act fully confirms the anticipations which I have ventured to express.]

“2726. How would your rule for the management of

the currency, making it expand and contract with the increase and diminution of the bullion,* have operated during the period of the drain from 1833 to 1837, and during the drain from 1838 to 1839?—It appears to me that it would have operated in the most eminently beneficial manner. In the first place, it would have substituted a contraction in the early stage of the drain, in the place of a contraction in a late stage of the drain; it would have produced a regulation that depended upon principle, instead of a regulation that depended upon panic, and therefore was incapable of being measured or regulated by any fixed rule. The contraction, upon that supposition would have commenced in the early stage of the drain, before speculation and the rise of prices had reached its full height; and it would also have commenced before the internal drain had sprung up. Now, it is a very remarkable and very important phenomenon attending these drains, that the drain always goes on for some length of time, before prices, and speculation, and over-trading, and over-banking have reached their maximum point; and that the last stage of the drain is always characterized by the springing up of internal alarm, which gives rise to an internal drain. Now, an internal drain is clearly one that can be met by no principle; there is no method of meeting it but by paying out gold, till the drain ceases. It appears to me that contraction applied in the early stages would be applied when it could be borne without inconvenience to the community, and that it would necessarily tend to counteract and check in their early growth those tendencies, viz., to speculation, over-trading, excessive rise of prices, which by their undue expansion under our present system, and the consequent violence of the subsequent collapse, produce

the extreme intensity which characterizes the commercial crises of this country. I think that this view might be confirmed very completely, by following the supposed application of it through the period from 1834 downwards. For instance, take even the very first year—we know that the mischief that subsequently arose in the year 1837 was principally produced by three circumstances, namely, by excessive credits given by this country to the United States, by excessive investments made in foreign securities, and by the very rapid and excessive expansion of the joint stock bank system. Those were the three circumstances that preceded the crisis of 1837, and tended to produce its mischief. Now, those three things were growing up during the preceding years, and the question is, if, at the commencement of the drain of bullion in the beginning of the year 1834, we had then applied contraction of the circulation, to what extent the growth of those three circumstances would have been arrested in their early stage, and the evils which afterwards ensued would have been prevented or mitigated. Now, during the year 1834, the bullion underwent a diminution of 3,200,000*l.*, during the same time the aggregate paper circulation underwent an increase of 600,000*l.*: if, during that year, the paper circulation had been contracted in correspondence with the bullion, it would have stood at about three millions and half lower than it did stand at the end of the year 1834. That, of course, is upon the supposition that the drain during 1834 would have gone, in the face of a contracted circulation, to the extent to which it did go, which probably would not have been the case; but I apprehend that no person can doubt that if that contraction, or any thing at all approaching to that contraction, had been resorted to in 1834,

the great mischief that burst out in the year 1837 would have been obviated. The drain would not have gone to the same extent; undue credits to America, undue investments in foreign securities, and the undue expansion of the joint stock bank system would all have been limited in so great a degree as to have reduced the events of 1837 to that which characterized the events of 1832: that, in fact, the thing would have passed off in 1837, as it did in 1832, without "discredit or distrust of any kind."]

4185. I understand you to mean by that answer that a publication of the accounts of the Bank in the present form would have shown at a much earlier period the rapid diminution of the reserve of the Bank of England, and would therefore have called the attention of the public to that fact, as well as have impressed upon the Directors of the Bank the necessity of an earlier contraction of their circulation?—Undoubtedly I mean that. In the first place, if the accounts, as now published, had been published at that time, the state of things here set forth could not have been reached, because it would have appeared by the published accounts long before matters reached this point, that the reserve of the Bank of England was absolutely exhausted. In the second place, this amount of notes could not have been put out; the Issue Department would not have issued such a quantity of notes. In the third place, it is quite clear that had the accounts been then published, as they are now published, the public and the Bank would both have seen the steady, and regular, and irresistible diminution of the banking reserve; and seeing that, they would have been compelled to resort to protective measures by making their rate of interest correspond to the increasing value of money; and in that way the reduction of bullion

to anything like the amount here stated would have been absolutely impossible; in other words, we should, at that period, have done what we have done in 1847 and in 1857. We should have preserved the bullion at an amount never below 8,000,000*l.*; we should have introduced correctives in an early stage of the business. The value of money would have increased the moment the bullion began to go out of the country, and that gradual increase in the value of money would have produced a gradually increasing pressure accompanied by all those circumstances which are the true correctives of a drain. I do not know how anything can be demonstrated if these facts do not demonstrate, beyond all possibility of controversy, that the Act of 1844 would have protected us in every one of those periods. This closes the chapter of monetary history previously to 1844. The review of this period has presented to us instances of the absolute increase of the total amount of paper issues during a drain of bullion; and other instances of paper money maintained at its full amount, when the great decrease of bullion clearly showed that a metallic circulation would have been contracted. On this point I beg leave to quote the words of Mr. Huskisson: "If the currency consists partly of coin and partly of paper, the excess of paper above what the currency would be if it were coin must be an excess of currency, and naturally tend to depreciation." That is from Mr. Huskisson's speech on Mr. Horner's celebrated resolutions; and I would further support that, if it be necessary, by the authority of Mr. M'Culloch, who says, "When a currency consists partly of the precious metals and partly of paper immediately convertible into them, any over issue of the latter depresses not merely the value of the paper money, but of the coins

which circulate along with it. Those coins, therefore, are immediately converted into bullion or exported. The ultimate effect of an over issue of paper in a country whose currency consists partly of coin, is an exportation of coin, or of bullion formed out of the coin." These principles are perfectly obvious. They are the very elements of science on this subject, and I confess I was very much surprised to hear a statement from my excellent and highly intelligent friend, Mr. Norman, who told me that in giving his evidence here, when he first stated to this Committee that an excessive issue of paper money, although not depreciating the paper money with reference to the coin into which it was convertible, depreciated the whole money of this country in comparison with the monies of other countries, there was great surprise in this Committee on the part of some, who seemed to be perfectly astounded as if a ghost had appeared. I am prepared to say, that this principle is one of the most simple and most distinct; universally recognised by every writer of any authority who has ever written upon the subject; in fact, the very elementary principle of the whole question. To show how familiar every writer is with that principle, and how astonishing it is that any person should take a prominent part in the discussions of this Committee who is not perfectly familiar with that principle, I quote another very short passage from Mr. M'Culloch again: "When the currency of any particular country, as of England, consists partly of the precious metals, and partly of paper convertible into them, the effects produced by an over issue of paper are the same as those resulting from an over issue of gold or silver. The excess of paper is not indicated by a depreciation or fall in the value of paper as compared with gold, but" (and those

words are in *italics* in his own book) “by a depreciation in the value of the whole currency, gold as well as paper, as compared with that of other states.” Without a full and clear understanding of that principle it is impossible to understand any part of this subject. Convertible notes may be issued, continually depreciating the currency, until the metallic portion of the currency has been entirely banished from the country; and then the notes, now become inconvertible, may be further issued until all the transactions of society have been brought to a state of utter confusion. To this process the wants of customers will oppose no obstacle or salutary restraint; these will be found as urgent, probably more urgent and extravagant, at the end than at the commencement.

[In further illustration of this, and of some other questions which have come under discussion in the course of my examination, I am glad to draw attention to a very remarkable article which appeared in the *Scotsman* in the month of August 1825, and which I append at the end of this volume. I believe it is well known to have proceeded from the pen of Mr. McCulloch; and the truth of the principles which it enunciates receives the most conclusive confirmation from the clearness with which the writer, in reliance upon those principles, was enabled to foresee and predict, so early as the commencement of August 1825, the disastrous events which marked the close of that year.]

4186. The necessary result of such a state of things is, the exportation of that portion of the circulation which consists in gold which alone has a value in a foreign country?—No doubt; for internal purposes, the paper and the gold circulate at equivalent values, but the moment

you bring the circulation into such a state that there must be a portion of the money exported, that portion only will be exported which has an intrinsic value; the paper will remain in the country, and that portion which has an intrinsic value will go abroad; and that process may be continued by keeping up the amount of the paper money until the whole metallic portion of the money of the country has gone abroad; when you have arrived at the exclusively paper money in the country, you have arrived at the suspension of specie payments, and then you may go on issuing your paper to any extent which you think proper; the wants of customers will never restrain or check your issues; they are absolutely illimitable, in the nature of things; money is wanted by everybody, to any extent; it matters not whether you issue 1,000,000*l.*, or 10,000,000*l.*, or 100,000,000*l.*; so long as it is the universal equivalent in exchange, the wants of customers will demand it to an illimitable extent, and the multiplied instances throughout the world of the excessive issues of inconvertible paper are clear proof of this.

[“The plea that no more is issued than the wants of commerce require is of no weight; because the sum required for such purpose cannot be defined. Commerce is insatiable in its demands, and the same portion of it may employ ten millions or a hundred millions of circulating medium; the quantity depends wholly on its value. If the mines had been ten times more productive ten times more money would the same commerce employ.”

—*Ricardo's Reply to Bosanquet*, p. 82.]

4187. You are of opinion, then, that there is abundant proof, according to the principles laid down by Mr. Huskisson, of the over issue of paper in the years 1837 and

1839?—Undoubtedly; it is as clearly proved as any demonstration in Euclid can be. The paper money in 1837 and 1839 exceeded that which would have been the amount of paper money in this country, upon the assumed process of issuing upon 14,000,000*l.* of securities. But that which is the really conclusive part of the case is this, that whilst the money kept going out of the country, the quantity of money remaining in the country was not diminished, because as the gold went out notes after notes were put out to supply its place; therefore you had a continual diminution of the metallic money of the country going on, whilst by your paper machinery you kept up the absolute amount of the money of the country undiminished. That, of course, was maintaining a permanent state of depreciation of the money of this country, as compared with the money of other countries of the world, and as long as you kept that up, your gold would go out until it was all exhausted.

4188. You consider that the facts which then occurred are perfectly irreconcilable with the opinion which has been held, that a currency convertible of paper and gold must vary as a metallic currency would vary, or that the mere convertibility of the paper is a sufficient protection for the proper regulation of issues?—I cannot suppose that it has ever been stated to this Committee in so many words, that a mixed currency of paper and gold must vary as a metallic currency would vary; no person could ever have stated anything so absurd as that; it is impossible. Every case, and they are innumerable, in which the paper money has been maintained at an undiminished amount during a drain of bullion, that is during a contraction of metallic money, is a practical contradiction of this doctrine.

4189. Will you have the goodness to refer to the circumstances affecting the currency, which have occurred since the passing of the Act of 1844?—We have now to trace the effects of the Act of 1844 in full operation, and to contrast the results upon the monetary system with those which occurred before we had the protection of that Act. First as to 1847. In this year we had a severe drain of bullion, arising as usual from a complication of causes, amongst which was the heavy payments for provisions imported; we had a great demand for capital caused by extensive transference of capital from a circulating to a fixed form in railways; a consequent high rate of interest; we had very extensive mercantile insolvency; we had timid action on the part of the Bank of England from the novelty of its position; and, finally, we had an ignorant panic on the part of the public, caused by their apprehension of the operation of a law, the principles of which they did not at that time fully understand. In the face of all these combined difficulties the bullion reserve was effectually protected, as it never had been on any previous occasion. And I have fully explained to the Committee (and I am prepared if required to do so, further to illustrate that explanation), the grounds upon which I confidently assert that without the Act of 1844 we should in the spring of 1847 have suspended specie payments. I now pass on to 1856 and 1857. During the last two years, we have again been called upon to meet a severe and protracted drain upon the bullion, arising from war expenditure and other causes, and to deal also with a violent disturbance in the distribution of the precious metals throughout the world. Suffice it to say, that by a strict and prompt adherence to the principles of the Act of 1844, everything

has, thus far, passed off with regularity and ease, the monetary system is safe and unshaken, the prosperity of the country is not disputed, the public confidence in the wisdom of the Act of 1844 is daily gaining strength; and if the Committee wish for further practical illustration of the soundness of the principles on which it rests, or of the beneficial results which it has ensured, the true and sufficient answer is, look around you, look at the present state of our trade, at the prosperous condition of the revenue, at the contentment of the people, at the wealth and apparent prosperity which pervades every class of the community; and then having done so, the Committee may be fairly called upon to decide whether they will interfere with the continuance of an Act under which those results have been developed.

[Since this evidence was given, the apparent prosperity of trade has undergone a temporary interruption, and important monetary events have occurred, which render a short explanation necessary.

The objection usually urged against the Act has been that, by the stringency of its provisions, and the restrictions which it places upon the amount of the paper issues, it would interfere with the free development of industrial enterprise, and check the natural progress of our commercial prosperity. The fallacy, however, of this apprehension has been fully shown by the course of events. Not only has the trade of the country expanded year by year since 1844, with a rapidity previously unknown, but it has now been proved that, even under the restrictive provisions of our present monetary laws, credit may be unduly inflated, and the spirit of commercial enterprise pushed to the most extravagant extent. In the midst of the difficulties and pressure which have unexpectedly arisen from this over-

strained system of credit and speculation, the bullion reserve has again, as was the case in 1847, been effectually protected, and danger to the maintenance of our specie payments has been rendered impossible, so long as the provisions of the Act are maintained. Notwithstanding a combination of circumstances, causing severe pressure upon the exchanges, they have been effectually controlled by the operation of the Act; the efflux of gold has been arrested before the bullion had been reduced to an inconvenient amount, and all the principles have been brought into action by which a rapid flow of the precious metals into the country may be assured. Under these circumstances, the direct result of the controlling influence of the Act, Government was enabled, without endangering the monetary system, to sanction a temporary increase of paper issues beyond the amount authorized by the law; and by so doing to mitigate the alarm and consequent inconvenience which might have arisen in the short intervening period till the influx of gold, insured by the provisions of the Act, had effected a legitimate increase of the amount of money in the country. This measure will, of course, become the subject of investigation in the ensuing session of Parliament; and little doubt can be entertained that the result of the inquiry will show that it is in no respect inconsistent with, nor, in any degree, tends to invalidate the principles on which the Act of 1844 is founded; whilst the power of authorizing such temporary suspension, and all the public convenience supposed to arise from it, are due to the efficiency of the Act, by which alone the previous rectification of the exchanges was insured, and the temporary increase of paper issues rendered consistent with the maintenance of specie payments.

Recent events have clearly shown that with our present system of credit the currency may be in a sound state, and we may be surrounded with all the apparent evidences of prosperity, when we are really carrying on a losing trade, and are on the eve of a serious revulsion. Such revulsions would, no doubt, be rendered more extensive and violent did our currency not rest on a metallic basis, and if our paper issues were not protected from arbitrary and irregular fluctuations of amount. Still it is plain, that even had we nothing but gold in circulation, we might have great abuse of credit and delusive appearances of prosperity, with consequent revulsion, commercial embarrassment, and supposed insufficiency of money. It is some advantage, arising from the crisis through which we have passed, to have gained this knowledge, and to have so dangerous a source of future disaster brought distinctly into view. By what means the abuses of the credit system may be restrained, without improper interference with the freedom of individual action, it may not be easy to determine, but the importance of the subject demands a most careful and searching inquiry.]

4190. Do you entertain any doubt as to the solidity of the principles upon which the Act of 1844 is founded, or the vindication of those principles which the events of the last 13 years have afforded?—I entertain no doubt of any sort or kind upon that subject. I look upon it that Sir Robert Peel in 1819 restored the money of this country to its just value. I look upon it that by the provisions of the Act of 1844, he gave to the country good security for the permanent maintenance of that just value, and thus completed, it is a noble work ; and I feel confident that this

Committee will never take upon itself the disgrace of now destroying that work.

4191. Reference has been made in the evidence already given before this Committee to the circumstances of the issue of paper money in the United States; are you at all acquainted with the facts as regards that issue of money in that country?—I certainly lived in active prosecution of business whilst those events took place; they occupied a great deal of my attention and my thought at that time, and I have not forgotten them since. I have with me a statement, made as short as the circumstances would permit with reference to those events, and I would ask leave to read it to the Committee, because I am sure that if anything further is requisite, this statement addressed to practical men is quite sufficient to settle the question which they have now before them.

4192. Will you have the goodness to inform the Committee, as far as you know, what was the state of the law of the United States by which the issues of banks were regulated?—I think you will find that the answer to that question is fully involved in the statement which I am about to make.

4193. Have the goodness then to place that statement before the Committee?—"It has been the uniform practice of the different States of the Union to allow banks to be established for the issue of notes, payable in specie on demand. In cases where the liability of the shareholders in these banks was to be limited, they have been established by an Act of the local legislature; but down to a comparatively late period banking was, speaking generally, quite free, and all individuals or associations might issue notes, provided they engaged to pay them when presented. Under this system the changes in the amount and value of the

paper currency of the United States have been greater than in any other country, and it has produced an unprecedented amount of bankruptcy and ruin. Between 1811 and 1820 about 195 banks in different parts of the Union became bankrupt, and it is said in a report by the Secretary of the Treasury of the United States, dated the 12th May, 1820, that these failures, which mostly happened in 1819, had produced a state of distress so general and severe that few examples of the like had then occurred; but bad as this instance was, it was nothing to that which took place subsequently to 1834. The accounts of the aggregate issues of the banks differ a little, but the following statement is believed to be nearly accurate, viz.,

Years.	Notes.
1830.....	66,628,898 dollars;
1834.....	94,839,570 dollars;
1835.....	103,692,495 dollars;
1836.....	140,310,638 dollars;
1837.....	149,185,190 dollars."

(These were issues made by banks in obedience to the wants of customers, and in notes payable to the bearer on demand.) "Now, observe that this sudden and enormous increase took place under the obligation to pay notes on demand! The result is such, as every man of sense must have anticipated; that is" (now I beg attention to this), "every bank within the Union without, it is believed, a single exception, stopped payment in 1837. In 1838 such of the banks as had been best managed, and had the largest capitals, resumed payments in specie; but in 1839 and 1840 a farther crash took place, and the bank notes afloat which, as has been seen, had amounted to 149,185,890 dollars in 1837, sunk to 83,734,000 in 1842, and to 58,563,000 in 1843." I hope we shall hear no more of the violent fluctuations unnecessarily produced by the Act

of 1844 in this country. "It is supposed that in this latter crash nearly 180 banks, including the Bank of the United States, were totally destroyed; and the loss occasioned by the depreciation which it caused in the value of stock of all kinds, and of all sorts of property, was quite enormous; and yet vast as the loss was, it was really trifling, as a writer in the American Almanack has stated, compared with 'the injury resulting to society from the upheaving it occasioned of the elements of social order, and the utter demoralisation of men, by the irresistible temptation to speculation which it afforded, ending in swindling to retain ill-gotten riches.'" Now this is the result of the application of that very system which the opponents of the Act of 1844 are pressing upon the consideration of this Committee. It is perilous nonsense coming from high quarters, from which we are entitled to expect more sound information and safe advice, you may rest well assured; I must speak plainly; I have a great public duty to discharge in giving my evidence upon this matter. "Since 1842 there has been much bankruptcy among the American banks; but there has been no such crash as that now referred to.* This has been a consequence of the measures that have been taken in nearly all the States to restrain the free action of the banks." Now you come to the question of taking security. "Thus, in New York, the banks are divided into two great classes, the incorporated and the free banks. The former, which are incorporated by a State

* Since this evidence was given there has occurred another crash, upon a still more extended scale, and, if possible, of a more disastrous character. Almost all the banks of the Union have suspended specie payments, whilst insolvency and ruin have been widely diffused amongst private concerns. When the proper time arrives for a full examination of the various circumstances connected with this crisis, it will be found to afford the strongest confirmation of all the principles maintained in this evidence.

law, have to conform to certain regulations, and have to contribute a certain sum annually to a security fund, which is devoted to the payment of the notes of defaulting banks. But this is a most objectionable plan, for in the first place it does not prevent bankruptcies; and in the second place it compels the well-managed banks to contribute to a fund which goes to pay the debts of those that are mismanaged. It is consequently declining in favour. The other plan is for the banks to deposit securities in proportion to their issues, and this is certainly by far the more efficient of the two. But it is objectionable, because, first, a longer or shorter, but always a considerable, period necessarily elapses after a bank stops before its notes can be retired; and, secondly, because in a period of panic or general distrust, the securities lodged for the notes would most likely become inconvertible. The Under Secretary of the Treasury of the United States has animadverted as follows on this plan, in a letter dated 27th November, 1854.” “The policy of many of the State governments has of late years consisted in encouraging the issue of small notes by sanctioning the establishment of what are popularly called ‘free banks,’ with deposits of stocks and mortgages for the ‘ultimate’ security of their issues. This ‘ultimate’ security is, it may be admitted, better than no security at all. The mischief is, that it is least available when most wanted; the very causes which prevent the banks from redeeming their issues promptly, cause a fall in the value of the stocks and mortgages on the ‘ultimate security’ of which their notes have been issued. The ‘ultimate security’ may avail something to the broker who buys them at a discount, and can hold on to them for months or years; but the labouring man who has notes of these ‘State security banks’ in possession, finds, when they stop payment, the

'ultimate security' for their redemption does not prevent his losing 25 cents, 50 cents, or even 75 cents in the dollar. In a circulating medium, we want something more than 'ultimate security,' we want also 'immediate security,' we want security that is good to-day, and will be good to-morrow, and the next day, and for ever thereafter. This security is found in gold and silver, and in these only." (Those are the words of the Under Secretary of the Treasury of the United States.) We find nothing here about the impossibility of banks regulating their issues by their own will—nothing of the safety of leaving the amount of paper issues to be regulated by the demands of customers or the wants of trade—nothing of the doctrine that paper issues beyond the supposed wants of customers will assuredly be merged and lost in the increase of deposits. I proceed—"On the whole it is sufficiently certain that there is only one way in which notes can be issued so that it shall be absolutely certain that they will be paid on their being presented, and that is by not permitting them to be issued, except in exchange for an equivalent amount of coin or bullion. That is the plan on which the Act of 1844 proceeds, and it is the only plan of the sort that is effectual for its object."

4194. I understand from the early part of your last answer that during the whole of this time, by the law of the United States, the notes were payable on demand in bullion?—During the whole of this time the notes were payable to the bearer on demand, and they were issued by the banks in compliance with the demands of customers.

4195. When you speak of an over issue, do you mean an absolute increase of paper issue, or the maintenance of notes at a higher amount than would be justified by the

amount of bullion in the country during a drain?—When I speak of an over issue, I speak of both, because they are the same in principle. You may make an absolute increase in the amount of the money of the country by a further issue of paper notes, or you may, whilst a drain of bullion is going on, maintain the amount of money in the country at an undiminished sum, by continually re-issuing the paper notes which have been paid in for the purpose of obtaining the bullion: it is in reality, in both cases, an over issue of precisely the same character, and producing the same effects; it is identical in principle, varying only in its external form, and it is by over-issue in both of those forms that the monetary system of this country has been repeatedly convulsed; in 1797, by an over issue of that sort, it was brought to the absolute suspension of its specie payments; on other occasions it has been brought only to the extreme verge of it.

4196. Do you conceive that the Act of 1844 was proposed by Sir Robert Peel on the notion of its lasting for a few years only, or as a permanent measure, at any rate in principle?—I presume that there cannot be room for the slightest doubt on the mind of any person whatever upon that subject; in the first place, there are many Acts in this country which are absolutely passed for a limited period, but with respect to which it is still perfectly well known that they are intended to be continuous Acts. When we pass at the close of every session, the Mutiny Act for one year, I apprehend that no man living supposes for one moment that this is an Act passed for one year, and to last for one year and no longer. But the case here is far different from that. The Act of 1844 is an Act permanent in the very construction of it; it is an Act which goes on in perpetuity unless Parliament interposes its own hand to destroy

it; a power of doing so is undoubtedly reserved; at the end of ten years a power arises upon giving a certain complicated notice to revise that Act, to amend it or to repeal it. But if Parliament does not exercise that power, the Act is by its own construction and words permanent. And there is a great deal more than that. That is the language of the Act, but we interpret the meaning and purpose of an Act by many collateral evidences. I am sure everybody will remember, or at least those who paid any attention to the subject will remember, that when the Government proposed to the Bank to make this Act revisable after a period of ten years upon its giving a certain notice, the Bank Directors partially only acquiesced in that, and suggested that the true course would be to give a power of revising the Act at the end of ten years upon proper notice; but that if that notice was not given at the end of the ten years, then the Act should have a continuous existence for another ten years. To this Sir Robert Peel and the Treasury objected, and what was the ground of their objection? I beg leave upon that point to make this statement, because I think it may be a useful admonition with reference to a good deal of what has passed in this Committee. They objected to that proposal upon this ground, that they thought such a provision would necessitate discussions at the end of ten years; but the plan which they proposed they thought was far better, because they hoped that it would obviate all necessity for reviving discussions upon currency and banking questions, which they held to be very detrimental to the public interests. A clause therefore was introduced for the express purpose of obviating even the probability of discussion upon the subject of the Act, and here are the words of Mr. Goulburn's letter: "In making the proposal contained

in my letter of the 27th ult., the Government were mainly influenced by the consideration (to which you appear also to attach much weight), that it was not advisable unnecessarily to agitate questions affecting the banking interests and the currency of the country. We confidently hope that the arrangement now to be made will be found, at the end of ten years, to have satisfied public expectation." Is that any indication of an intention that it should not last longer than ten years? "And in that case there would probably be a disposition, encouraged by the knowledge that the subject was at any time open to discussion, to forbear from proposing a change in the existing system. But, on the other hand, if the opportunity of revision afforded at the end of ten years was not again to occur till the expiration of a similar period, the necessity of reviewing what was otherwise to be for so long a time irrevocable, could scarcely be denied." I apprehend that that passage at once disposes of the question as to the intention of Sir Robert Peel, with regard to this Act, and as to all idea of the Act being passed with the view of its lasting ten years and no longer.

4197. We have had a good deal of discussion about the reserve of the Bank of England. What do you conceive the reserve of the Bank of England, that is to say, of the Banking Department of the Bank of England, to consist of?—The reserve of the Bank of England consists of that portion of the money of the country which it has at its immediate command and disposal for the working of its business.

4198. I need hardly ask you whether you consider that the bullion in the Issue Department is any portion of the reserve of the Bank of England in its banking business?—It has no sort of connection with it. The bullion is the

reserve of the Issue Department to meet the demands of note holders; the bank notes in the till of the Bank of England are its reserve to meet the demands of its depositors.

4199. Do you think that it would be advisable, either in the old form or in some forms which have been suggested to the Committee, again to mix the accounts of the Issue Department and of the Banking Departments of the Bank of England?—I dare not tax the time of the Committee further; otherwise upon the subject of blending the accounts again into one I should be prepared to go into a statement of some length. But I have no hesitation in saying, that it would be a retrograde movement from light back again into darkness. We have seen in the course of the discussion to-day very clearly and distinctly what has been the practical result of a blended account, and what would have been the beneficial protection to be derived from the present separated form of account had it been established much earlier than it was. The objections to returning to the blended account are perfectly distinct and obvious. First of all, it completely suppresses all knowledge of the banking reserve, and therefore renders the account necessarily incomplete in a most important particular, and is therefore calculated to deceive, and not to instruct. Secondly, it affords facility (and that is the real object of proposing the blended account) for again issuing notes not in correspondence with the fluctuations of the bullion; in other words, for again plunging us in the evils of 1783, of 1797, of 1825, of 1837, and of 1839, and choosing that as a state of things preferable for the interests of this country to that which we have enjoyed for the last twelve years.

4200. Do you consider that the great objection would be, that it would conceal from the public the knowledge of

the state of the banking reserve, and would not therefore give that timely warning to the public, as well as to the Directors, which you think should induce them to contract their issues, or to take measures for preventing the exhaustion of their bullion?—I think that it is calculated directly to throw the public mind into a state of perfect confusion upon the question of their monetary system; that it can lead to nothing but the most dangerous and deceptive results; that it would facilitate, during a drain of bullion, the re-issue of paper notes, thus keeping the aggregate money of the country undiminished, and therefore depreciated, until the whole of the bullion is banished from the country, or nearly so; and, to put it shortly, that it is calculated to restore us to the condition and subject us to all the calamities which we experienced before 1844, and of the possible extent of which calamities I have given to the Committee a practical illustration, in the condition of the monetary system of the United States in 1837.

[When the resumption of cash payments took place in 1819, the management of the joint business of issue and banking was left to depend upon the system of a blended account. The natural result ensued—a continued and dangerous decrease of bullion, not counteracted by any corresponding contraction of circulation. This was in operation through the years 1823–4, as we have already seen, and the final result was the catastrophe of 1825.

The first attempt to correct this defect in our monetary system was the plan proposed by Mr. Horsley Palmer. Hitherto the bullion and securities jointly had varied as the circulation and deposits jointly—

Securities + Bullion \propto Deposits + Circulation.
The rule suggested by Mr. Horsley Palmer, but soon

abandoned and apparently given up by everybody as impracticable, required that the securities should be maintained at an invariable amount—that they should in fact be made a constant in the above equation. The consequence of course was that deposits and circulation jointly would vary as the bullion varied—

Bullion \propto Deposits + Circulation.

In other words, the bullion might vary to an unlimited extent, and be met by no corresponding decrease of circulation, but solely by a decrease of deposits.

My first Tract in 1837 was written for the purpose of drawing public attention to the fallacy involved in this rule.

The rule is “that the securities being kept equal, any diminution in the amount of specie may be met by a corresponding decrease in the aggregate amount of circulation and deposits.” The possible consequence is, that a large diminution of specie may take place, and be met, not by a corresponding decrease of circulation, but solely by a decrease of deposits. Thus a heavy drain upon the treasure of the Bank might take place under this rule without any contraction of the circulation by which that drain is to be checked or the Bank to be protected,” p. 7 Tracts, &c. This was a fatal defect—the consequences of which became apparent in the events of 1837 and 1839.

The next attempt to correct these defects and to establish the management of the circulation upon sound principles, was the Bill of Sir Robert Peel in 1844.

By this measure a complete separation is established between the issue of paper money and the legitimate business of banking, and the accounts relating to each are kept entirely distinct. In other words, the above equation

was resolved by the Act of 1844 into its constituent elements.

Circulation is now made to vary in amount as the bullion, and upon this rule the management of the Issue Department is founded.

Securities are therefore left to vary in relation to the deposits, and this forms the natural and the only correct rule by which the Banking Department can be managed.

By this principle our monetary system has been regulated during the last thirteen years. What has been the result? Previous to 1844 on almost every occasion, a pressure upon the foreign exchanges and a consequent export of bullion remained unchecked until our metallic store was reduced to an extreme point and well-founded alarm arose respecting the safety of our monetary system, and of our power to maintain the convertibility of the Bank note.

Subsequent to 1844, and under the provisions of Sir Robert Peel's Bill, the safety of our specie payments has never been exposed to the slightest doubt; the bullion, even under the severest pressure upon the foreign exchanges, never having been reduced below eight millions.

To accomplish this was the one object and purpose of the Act of 1844, and in this it has completely succeeded. Nor has this result been obtained by any sacrifice of public prosperity or any interference with its progressive development. Since the passing of the Act in question, the trade, the public revenues and every branch of productive industry have been more prosperous and more expansive than in any previous period of our history.

Experience then as well as general reasoning confirm the principles upon which the Act of 1844 is founded—

and especially that main principle of the Act by which an effectual separation, in account, as in all other respects, is established between Issue and Banking.

To this however objection is raised, and a plan is suggested for again mixing in one form the accounts of the Issue Department and those of the Banking Department. The analysis effected by the political sagacity of Sir R. Peel must be abandoned, and the heterogeneous and incongruous compound resulting from the blended account, must be restored.

The grounds upon which I think this proposal ought to be firmly resisted have been stated already in various parts of the preceding evidence, but it may be useful for the purposes of this discussion shortly to recapitulate them.

1. It would be a virtual repeal of the Act of 1844, and would entirely deprive us of the protection which under the provision of that Act we have obtained against the recurrence of the disaster and alarm to which we have been exposed on all former occasions. It is a return, almost undisguised, to the old form of accounts which was abandoned because it had been shown to be inconsistent with sound monetary principles and to be dangerous in its practical results.

2. It unites together and treats as one homogeneous whole, things totally dissimilar—things dissimilar in principle, and dissimilar as regards the management to which they ought to be subjected. It fuses into one account two distinct and separate businesses—that of Issue and that of Banking—a course which in any other case would be at once condemned as improper, suspicious, and calculated to facilitate and conceal improper practices.

3. It suppresses all traces of the Banking Reserve, and

of course all knowledge of the fluctuations in its amount. The notes constituting the Bank Reserve are perhaps the most important and influential portion of all the notes put forth by the Issue Department; and the great merit of the Act of 1844—one principal cause of its efficiency is, that it distinctly defines the Bank Reserve, draws it forth from the darkness and ambiguity in which it was previously concealed, and exposes it to the full knowledge of the public.

4. It allows the fluctuations in the bullion to be compensated, not necessarily by any corresponding fluctuations of the notes, but possibly by corresponding fluctuations in the securities alone. A drain of bullion may therefore go on, subject to no certain or efficient control, until either the bullion is entirely exhausted and suspension of specie payments becomes inevitable, or until the bullion is reduced to so low an amount that public alarm and panic ensue. The result of this may or may not be a correction of the drain before the bullion is entirely exhausted. But if that extremity be obviated, it is through means altogether irregular, uncertain, and unmanageable in their action, and seriously detrimental to the public interests. The events of 1825, 1837, 1839 proclaim their serious warning on this point.

5. It gives a false and delusive impression to the public through the suppression of the Bank Reserve, as to the amount of money really requisite for, and employed in conducting the business of the country. And it further throws ambiguity over the real extent of the legitimate means which the Bank has at its command.]

4201. Mr. Gladstone.] You have given your opinion strongly with regard to the permanence of the provisions of the Act of 1844; is the Committee to receive that as a general opinion, having reference to the essential principles of the Act,

as you have explained them, or is the Committee to understand that you likewise think that the particular enactments admit of no change in the sense, either of development or otherwise?—The question to which I was replying had reference, as I understood it, to an intimation which had come before the Committee that the Act of 1844 had been passed by Sir Robert Peel, intending it to last for 10 years, and no longer. My reply was, that that was completely contradictory to the terms of the Act, and to the explanation of the meaning of those terms, as derived from the correspondence between the Treasury and the Bank of England upon which the Act was founded; I meant that Sir Robert Peel, in passing that Act, passed it as an Act which he hoped, and fully believed, would satisfy public expectation, and to such a degree, that it might be permitted to continue as a permanent measure for the regulation of our monetary system. But, at the same time, knowing that when such an Act was for the first time applied it might be open to imperfections and defects, of one kind or the other, in its details, to be ascertained only by experience, that it was wise to retain a power of revising it after a sufficient period had elapsed to have learned the results of experience, and, retaining that power, to retain it in such a form that it would not be used except under a strong sense of the necessity of applying it to its legitimate purpose, the correction of details, the imperfection of which was ascertained by experience, and, at the same time, not to encourage unnecessary discussions, which he believed to be very prejudicial to the public interests, upon the general questions of currency and of banking.

4202. Therefore it would not be inconsistent, if I understood you rightly, with the views which you have

expressed, that changes in the particular terms of the Act might be proposed, in conformity with the spirit in which the Act itself was framed, and with the view of giving a more complete or more satisfactory effect to its principles?—Undoubtedly, modifications in the details of the Act, calculated to carry out more efficiently, and in a more simple manner, its great and main principle, are perfectly consistent with the view which I take, that the Act essentially was intended to be of a permanent character.

4203. With respect to those particular provisions of the Act which relate to the private issues of the country bankers, would you be disposed to say that they carried with them the aspect of finality?—I have been examined at considerable length upon the subject of those country issues; I do not think that they do; I have stated, throughout my evidence, that I think that the whole state of the country issues is very anomalous, and that some very serious objections may still be offered to them; that I believe it to have been the view of Sir Robert Peel, that, as a matter of practical policy, having placed an effectual limitation to their amount, it was better to leave them to be absorbed by the gradual process of natural causes than to adopt any direct operation for that purpose; and I rather concurred in that view, not, however, to such an extent but that if a measure for the extinction at once of the country issues, of a tolerably practical character, could be devised, I should be glad to see it.

4204. *Chairman.*] When you say that an opinion has been intimated to this Committee that Sir Robert Peel's Act was intended to be temporary, do you refer to question and answer 913?—I certainly have been given to understand that the question has been put by this Committee, I

believe almost verbatim, in this form : "The Act of 1844 was passed, I believe, to last for 10 years, and no longer."

4205. The question is put by Mr. Wilson to Mr. Weguelin, and it is as follows :—Sir Robert Peel, I think, contemplated that the Act of 1844 should last for 10 years, and no more?" Mr. Weguelin's answer is, "He thought that by that time the country circulation would be so diminished, that it would be possible to deal with the remainder by legislative enactment." Is not the meaning of the question and answer this, that Sir Robert Peel contemplated that this Act should not be a final one, but that it should receive further development and extension in the direction of the policy of the Act at the end of 10 years. Do you not understand that to be the meaning of the question, and of the answer?—I certainly understand that to be the meaning of the answer. I do not understand that to be the meaning of the question. I do not conceive that the question was shaped with any view of recommending or suggesting the further development and extension of the policy of the Act.

4206. Then what do you understand to be the meaning of the question?—I understand that question to be an endeavour to introduce to this Committee an impression that this Act was intended, in the very words of the question, by Sir Robert Peel in passing it, to be an Act to last for 10 years and no longer.

4207. Do you think that it was intended to intimate to the Committee an opinion that the Act was to be simply repeated at the end of 10 years, and that nothing was to be substituted for it?—It is a very awkward thing to ask me what is the interpretation to be put upon another man's question. I can only say that when I read that

question, it produced upon my mind a feeling of great astonishment.

4208. If it created so much astonishment, might it not have induced you to doubt whether that was the correct meaning of the question?—It seemed to me that the question was so distinct that it precluded the possibility of doubt.

4209. At all events it was not understood in that sense by the witness who answered it?—I must refer to the witness upon that subject.

4210. Does not the answer clearly show that he understood the question to mean that it was intended to introduce further legislative enactment at the end of the 10 years?—I really think that it is not necessary to press me further upon that subject. I have stated that when I read that question it produced upon my mind, especially reading it at the end of the whole of that day's examination, a feeling of very great and painful surprise; and when I read the answer the impression made upon me was, that the witness was so struck by the monstrous character of the question, that he put upon it a limited interpretation, which was an exceedingly good mode of getting rid of the difficulty before him.

4211. Does not the monstrous character of the question depend upon the assumption that it means that the Act should simply be repealed at the end of the 10 years, and nothing substituted for it?—It certainly depends upon the assumption that the purport of that question was to produce an impression that there was something in that Act, by the intention of Sir Robert Peel in passing it, showing that the Act was to last for 10 years, and no longer.

4212. And that when it ceased to be in existence, no other Act of a similar character, carrying into effect an

identical policy, should be substituted for it?—I go no further than the words of the question.

4213. Mr. *Hildyard*.] Your Lordship stated that there were several Acts which had been passed for a limited period, but which nevertheless it was clearly contemplated should be continued when the end of that period arrived, and you cited the Mutiny Act. Are you prepared to tell the Committee that you think there is the slightest analogy between the fact that we pass the Mutiny Act merely for a year, and the fact that the Bank Act was passed for 10 years?—No; I said distinctly that it was a very different case. The Munity Act does expire by virtue of its own terms at the end of a year; the Act of 1844 is, by virtue of its own terms, ever enduring. It simply contains a clause which enables the Legislature, upon giving a certain notice, to bring it under revision: but unless the Legislature originates that notice, the Act of 1844 is permanent.

4214. Is it not notorious that the reason why we pass the Mutiny Act for only one year is an old jealousy (whether now a well-founded one or not we need not inquire), that it is necessary for political reasons to have that Act annually renewed?—No doubt it is perfectly notorious.

4215. Will you cite any other instance where we pass an Act for only a limited period, contemplating nevertheless, as a matter of course, its re-enactment?—I am not prepared at this moment to cite any other case; but I believe there will be no difficulty in doing so; there are a great many cases. But that fact does not bear upon this question, because this is not an Act terminating at a definite period.

4216. If I understood you in the opinion which you stated of the Under Secretary of the Treasury in America,

with respect to the free banking system, he concluded by saying that the system now adopted of having security and a portion of bullion is defective, because there is not bullion kept in reserve to meet the whole amount of issues; did I rightly understand that?—I will read any passage of the paper which is required.

4217. It is just the concluding sentence. Did I rightly understand you, in reading the end of that question, to read the opinion of the Under Secretary of the Treasury, that there ought to be bullion to the extent of the whole number of notes issued?—I do not understand that the Under Secretary of the Treasury of the United States, in the document which I have read, intimated any opinion that there ought to be an amount of bullion always in itself equal to the total amount of notes out.

4218. Will you oblige me by reading the last sentence of that paper?—"In a circulating medium we want something more than 'ultimate security;' we want also 'immediate security;' we want security that is good to-day, and will be good to-morrow and the next day, and for ever thereafter. This security is found in gold and silver, and in these only."

4219. Do you concur in that opinion?—Yes, I concur in that opinion entirely.

4220. The Bank Act does not provide that there shall be gold and silver to meet the amount of notes in circulation:—The Act of 1844 provides that there shall be gold and silver sufficient to meet any quantity of notes that the condition of the country will permit to come in, in exchange for gold and silver.

4221. The Bank Act makes no provision for meeting any portion of the country circulation by gold and silver,

with the exception of that which is issued in excess of the authorised issue, does it?—We shall revive a discussion which has already occupied a large portion of the time of this Committee. The provisions of the Act of 1844 have reference to the protection generally of the monetary system of this country, meaning thereby to preserve an adequate amount of bullion against any action which can come upon it through the exchanges. An action through internal panic is one which it does not pretend to deal with, and that I have already stated. The only security against internal demand must consist in the retention, under any state of the exchanges, of an amount of bullion sufficient to meet that demand. The peculiar merit of the Act of 1844 consists in the fact that under its provisions a large amount of bullion will always be retained to meet internal demands.

4222. As regards the English circulation, does the Bank Act make any provision whatever that there shall be bullion forthcoming to meet any portion of the country circulation?—I cannot answer questions by simply saying that is the fact, or that is not the fact, because it is quite necessary to explain these facts. You may state that such is the fact, and leave a very false impression and inference derivable therefrom. The bullion in the Issue Department is a store of bullion, for the purpose of meeting any demand of Bank of England notes which can come against it, for the purposes of meeting and dealing with a pressure in the foreign exchanges. Country bank notes have no power whatever of demanding bullion out of the Issue Department.

4223. Did I rightly understand you to say, that you thought in defence of the Act of 1844 you might appeal to

the state of this country, and say, here is its prosperity, as the result of that Act, and that that was a triumphant argument?—Not quite in that form. My first appeal was this, that the Act of 1844 has accomplished that which was its great and direct object, namely, the protection of the bullion reserve against any drain which should bring it down below a safe and convenient amount; and secondly, that it has accomplished those results by means which have not only been not inconsistent with the development of public prosperity, but which have in my judgment had a considerable connexion with that development.

4224. I understood you to say that if we wanted a vindication of the principles of that Act, we had only to look at the prosperity of the country; those were your words, were not they, or nearly so?—Not of the principles, but of the results.

4225. Might not the miserable American circulation which you have brought under our notice, be defended by a similar argument; might not the advocate for that system say, Look at the prosperity of America, and is not that proof of the good results of our system of circulation?—Then you have omitted the first part of my argument, that the Act had been efficient in preserving the bullion from an undue and inconvenient exhaustion. Now, in the early part of my evidence, I quoted the authority of Mr. Webster, to show that under the provisions of the American system the gold had been entirely banished from the country.

4226. If we are to support the Act 1844 by appealing to the prosperity and industrial development of this country, might not any one who advocated the American system make the same appeal, and with just as true a logical

accuracy?—No; I think it would be as illogical as a thing could possibly be. My defence of the Act 1844 (I am sorry to repeat it so often) is this: First, that it has accomplished its great end and object; namely, the preservation in this country of an amount of bullion in store, which under even the most trying circumstances is never reduced to a low or inconvenient amount. And secondly, that consistently with that accomplishment of its great purpose it has not interfered with, but in my judgment has materially aided and assisted the development of national prosperity. Now that argument cannot be applied by any person with reference to the American system, because he will break down; the first arch of the bridge will let him into the water, and therefore he will never reach the second arch; he will tumble through at the first, because he will never be able to prove that the American system has succeeded in protecting the bullion reserve of that country from entire exhaustion; and that he will not succeed in that is shown by the passage which I have already referred to by Mr. Webster, the best authority that I can possibly refer to, who says distinctly that the gold at that very time was entirely banished from the United States.

4227. Do you deny that the commerce and industry of the United States has developed itself in a most extraordinary manner during the period to which you have drawn our attention?—That the commerce and prosperity of the United States has developed itself in a most extraordinary manner is true, but not during the period to which I referred; that was a period of great national disaster, and that is the whole gist of the question, that the American system of managing the money and the

monetary affairs of the country has exposed it to periods of tremendous monetary disaster. No doubt those periods of disaster are overcome, and they again go ahead ; but the object of our Act is to prevent the occurrence of those periods of disaster.

4228. You spoke of a most vicious currency in America for a period extending over a great portion of the present century ; do you mean to say, that during the whole of that period to which your evidence had reference, there has not been a very great development of the resources of that country ?—In the first place, I think you do not state accurately the period to which I referred ; I believe that I began with 1820, and ended with 1837 ; I certainly do not deny that even during that period American prosperity advanced and extended itself, but I do assert that during that period it went through crises and trials and sufferings of such a nature, that if you are prepared to subject this country to similar calamities, I shall be very shy of sharing your responsibility.

4229. But, during the whole of the period from 1838 up to the present time, it has been competent for any bank to be established in New York, and I believe in other States, provided securities are lodged to the extent of 120 per cent. upon the amount of notes issued, and bullion to the extent of 12 per cent. ; is that within your knowledge ?—It is not within my knowledge.

4230. Will you be kind enough to look at that statement of what is called the Free Banking Act, and tell me whether I have rightly described it (*handing a paper to his Lordship*) ?—I have stated that it is not within my knowledge that that is the provision of the Act ; of course you are as capable of judging of that as I am.

4231. Is it not within your knowledge that the notes which now circulate in the United States are issued upon security, and that any bank may be established which gives the required security, though you state that you are not aware of the amount of it?—I have no positive knowledge as to what is the state of the arrangements at this moment in the United States. My impression is that it differs very materially in the different States. But, undoubtedly, I have a general impression that in some of the important States, banks are allowed to issue notes upon giving security for the payment of those notes, and retaining a certain portion of bullion. I can only say that I adopt entirely the view of the Under Secretary of the Treasury of the United States, that that is a much better arrangement than any one of the others which had been previously tried, but that still it is a very defective arrangement.

4232. That defective state of circulation having existed since 1838, I ask, do you deny that since 1838 there has been an enormous development of the industrial resources and commerce of America?—No, I do not deny it all.

4233. Then might we not, according to your own reasoning, appeal to that prosperity as a proof that the banking system was a good one, with as much justice as you have appealed to the state of prosperity in England, and ascribed it to the banking Act of 1844?—I do not think that the arguments are logically parallel to each other. I really do not think it is necessary to go over the thing again.

[The argument, if so it may be called, that runs through these questions has been disposed of as follows, by a writer in *Hunt's New York Commercial Magazine* for September last :—“ The people of the United States have prospered,

not in consequence of their mixed currency, but in spite of it. The immense advantages of their position, their unparalleled energy and industry, have given them great wealth, notwithstanding all the derangements of business in which their currency has so frequently involved them. It would be as reasonable to assume, and quite as true, that the great prosperity of the American people was owing to the large quantities of alcoholic drinks they have consumed as to this mixed currency." Recent occurrences in the United States, and the present condition of its monetary system, afford a farther commentary upon the purport of the preceding questions, and exhibit a practical verification of the principles for which I have contended throughout this evidence.]

4234. Mr. *Spooner*.] There are two points which have arisen, upon which I very much wish to have your opinion. You have just stated that you thought that this country was in a very great state of prosperity?—Yes.

4235. Has your Lordship inquired at all into the condition in which the small traders and the retail dealers are situated now in all the great manufacturing districts, in consequence of the great difficulty which they have in obtaining any sort of discounts for their paper?—No; I cannot say that I am conversant with that fact. I only speak generally; there will be, in a country like this, as a consequence of the great activity of competition of all kinds, and the great progress which is going on, some classes who are more or less in difficulty. The fact is, that all great progress and all great improvements necessarily involves that. In the transition of prosperity from one form to another form, there must be some classes always

distanced in the competition. A perfectly quiescent state of all the great classes of the community will be found very far indeed from a state which indicates great national progress.

4236. Your Lordship is not aware that there is in the class to which I have alluded, at the present moment, great complaints both of a want of the means of carrying on their business, and likewise as to the profits attached to that business?—That there is now a much greater demand for capital than there was some years ago is an undoubted fact, with respect to which we have had a great deal of discussion in this room ; and when there is a great pressure for adequate capital to carry on the business of the country, some classes will feel that pressure more severely than others. One cannot suppose that the trade of this country is to be tripled in the course of a very short time without some classes or other being severely pinched to find capital for carrying on their business.

4237. Your Lordship has likewise stated that you think that the great crisis of 1797, when the Bank was compelled to stop payment, was owing chiefly to the conduct of the Bank itself, in not sufficiently contracting its paper issues as gold went out of the country?—I have rested that rather upon the authority of Mr. Tooke than upon my own authority. I accompanied the quotation of Mr. Tooke's opinion upon the subject with the observation that, undoubtedly, political panic and fear of foreign invasion had a considerable share in the circumstances of that period, and that upon that ground a plausible and, perhaps, a sufficient defence of the suspension might be founded.

4238. Is your Lordship aware that an exactly contrary

opinion is given by the Secret Committee which sat in 1797, of which Mr. Pitt was a member, as to the Bank not having sufficiently contracted its issues?—I do not now remember what was the case in this respect; the subject was not then so well understood as it is now.

4239. There is the following passage in the Report of that Committee: “Your Committee further observe, that as the Directors of the Bank had, previous to the actual existence of the alarm, lessened the amount of their discounts, so as to have reduced them by the 25th of February one-fourth of the sum at which they stood at the beginning of the present year; and as the restriction of the accommodation afforded by them to individuals produced a similar decrease in the amount of discounts by private bankers, the joint effect of this diminished accommodation to the public at a time when the circumstances above mentioned, and others to be hereafter adverted to, seemed to require an increase of it, must necessarily have been an additional embarrassment in commercial and pecuniary transactions, tending to increase the demand for cash on the Bank?”—In that passage there is an allusion to the contraction of discounts, but no positive allusion to an absolute contraction of paper money, and the contraction of discounts, it is stated, stimulated the demand for cash; a very natural result. But then it goes on to observe that the peculiar circumstances of the time required an increase, not a contraction of accommodation to the public. This directs our attention to the conflicting difficulties of that period to which I have already alluded. Restriction was requisite to preserve the power of paying the notes in gold; extended accommodation was deemed to be necessary to relieve the

alarm which the fear of invasion and other circumstances had generated. There is no doubt that monetary phenomena were not then so clearly understood as they are now ; and I could not quote a passage more illustrative of that fact than the one which you have read. There is no distinction between a demand arising from foreign exchanges and a demand arising from internal panic and alarm, which are two totally different things ; and a person mixing up those two different considerations, and looking at the joint result, without separating the causes producing it, will never form a clear view of the subject ; and that was the state of the public mind even of the most intelligent persons at that period. The phenomena of that period first led us to understand this subject, by analysing them into their component principles. A contraction of your paper money will check and correct the demand through the foreign exchanges, but it will not necessarily check or correct the demand for internal purposes.

4240. Mr. *Vance*.] Your Lordship spoke of the monetary crisis of 1837, and of the way in which it worked in America ; are you aware that it was a good deal aggravated there by the operations of some of the English houses who opened discount establishments there, and charged a high rate of interest, they getting their own paper in this country discounted at a very low rate?—There were undoubtedly a great number of very strange and complicated transactions going on between this country and the United States at that period ; but that will not affect the question. The question is here an absolute increase of the paper issues of the United States from the year 1830 to the year 1837, from 66,000,000 of dollars to 149,000,000 of dollars ; the

result of that was, that in 1837 not one of the banks issuing that paper was able to pay.

4241. The object of my question was still further to develop your principle; at that time we had not the Act of 1844, and those English houses had unlimited credit in this country for their paper at an exceedingly low rate, I believe $2\frac{1}{2}$ per cent., while they discounted in America at 8 or 10 per cent., consequently draining this country of gold, and producing the crisis which arose?—I do not at all know the accuracy of the facts stated in the question; but if you assume that the price of money in this country was $2\frac{1}{2}$ or 3 per cent., and that the price of money in the United States was 10 per cent., there would of course be a transference of money and capital from this country to the United States: there cannot be a doubt of it.

4242. Mr. *Cayley*.] Assuming that the rate of interest is dependent from century to century on the supply of capital, that in new countries, like the United States, where the accumulation is comparatively small, the rate of interest is, *cæteris paribus*, high; and in old countries, like England and Holland, where the accumulations are large, the rate of interest has a tendency, *cæteris paribus*, to lessen. My question at the last sitting but one applied to short periods, namely, to two or three months, or two or three years; is it your opinion that the rate of discount and interest for such short periods depends for the most part on the supply of capital, or on the supply of money?—The shorter the period of variation the greater the probability is that it has reference to an alteration in the value of money, but that does not necessarily follow.

4243. Does the quantity of capital, do you think, oscil-

late from month to month to such a degree as to alter its value in the way exhibited of late years in the oscillations in the rate of discount?—The relation between the demand and the supply of capital may undoubtedly fluctuate, even within short periods, very considerably, because the operation of that system is facilitated by the various relations between one country and another to a very great extent; for instance, you may take such a case as this: if France to-morrow put out a notice that she wishes to borrow a very large loan, there is no doubt that it would immediately cause a great alteration in the value of money, that is to say, in the value of capital in this country; it would produce it the very next day.

4244. Are you now referring to France contracting a loan in gold?—I am supposing France to put out a notice to-morrow that she wishes to contract a large loan; the result of that notice would instantaneously be to produce a considerable effect upon the rate of interest, as indicating the increased value of capital in this country.

4245. How would the borrowing of money in France affect the rate of interest in England, except as the base of the currency in France and England is the same?—In the first place, you must remember that money is only a means of effecting the interchange; the interchange is really of capital or of commodities. If France announces that she wants suddenly, for any purpose, 30 millions' worth of commodities, there will be a great demand for those commodities; there will be a great demand for capital, to use the more scientific and the simpler term, and that great demand for capital will affect all the principal markets in Europe, and especially in London.

4246. The capital which France would wish to buy with her loan is one thing, and the money with which she buys it is another ; is it the money which alters in value or not?—We seem to be reviving the old question, which I think is more fit for the chamber of a student than for this committee-room. The essential thing is the value of capital ; money is the instrument through which capital is exchanged between person and person, and between country and country. The first effect, only a temporary and short effect, may be upon the value of money, but no permanent effect can be produced but by some alteration in the relative demand and supply of capital, connected with some change in the productiveness of capital, or by some permanent alteration of the quantity of money ; a permanent alteration in the quantity of money can hardly take place, because it will be rectified through the exchanges ; therefore the fluctuations in the rate of interest, as dependent upon the quantity of money, will be short in duration, and probably small in amount ; but the relation between the demand and supply of capital may undergo a great and permanent alteration, and the fluctuation in the rate of interest dependent upon it will partake of the same character.

4247. If France gives notice of raising a loan, the tendency of that is to withdraw gold from other countries, is it not?—I would rather put it upon the general principle ; the tendency of that is to disturb the equilibrium existing between the different countries ; there will be a demand for additional capital to go from different countries to France, and the transference of that capital will be through the form of money.

4248. But if it withdraws gold from the Issue Depart-

ment of the Bank of this country, it then affects the rate of interest of money?—If you diminish by any means whatever the quantity of money in the country, at the time of that diminution the first effect will be an alteration in the rate of interest on account of the diminished quantity of money; that will be an effect of short duration, and, generally to a limited extent.

APPENDIX.

EXPORTATION OF GOLD AND SILVER. STATE OF THE COUNTRY BANKS.

From the "Scotsman," 3rd August, 1825.

It appears from a published account of the gold and silver coin and bullion exported from London during the last three months, that their aggregate value amounts to no less than 2,834,000*l*. Almost all this amount has been obtained from the Bank; and it is estimated that the stock of bullion in the coffers of that establishment has been reduced by the demands for exportation, from *twelve* millions on the 1st of January, 1824, to about *four* millions at this moment. Under these circumstances, and considering that the exportation still continues unabated, the rumours so prevalent in London about two months since of the embarrassment and consternation of the Directors are again revived with increased confidence.

This drain is really, however, the necessary result of the proceedings of the Directors. And though we are most ready to acquit those functionaries of all intentional error, still we are fully satisfied that their proceedings, during the last ten years, have been equally opposed to their own and the public interest. Not satisfied with opposing the proposal for paying in bars, which would have enabled them to keep the usual amount of paper in circulation with a com-

paratively small amount of bullion in their coffers, the Directors amassed, in the course of 1820, 1821, and 1822, a quantity of bullion that has been variously estimated at from twelve to sixteen millions ; and so long as the value of the paper and gold coin in circulation continued at its proper level, this immense capital lay idle on their hands without their having a possibility of employing it. In consequence, the Directors became as anxious to get rid of a portion of their gold as they had formerly been to accumulate it ; and for this purpose they purchased additional quantities of Exchequer Bills, reduced the interest on their discounts to *four* per cent., and announced their intention to lend on mortgage—a proceeding quite inconsistent with every sound principle of banking. These measures, in conjunction with others which the Directors could not control, but which they might have foreseen, occasioned a demand for bullion, and the coffers of the Bank began to be relieved of a portion of their surplus stock. But the Directors have found that it was easier to open than to shut the sluices of their wealth. And it must be owned, too, that there has been something not a little unusual in the continuance of the demand for bullion for the purpose of exportation. During most previous drains the market price of bullion exceeded the Mint price, or the price at which the Bank are obliged to give gold in exchange for their notes, and, of course, there was an obvious advantage in demanding it of them. Such, however, is not the case at present, nor has it been the case any time during the last three years. The notes of the Bank of England are now of exactly the same value as the coin that circulates along with them. There is not, in fact, at this moment, the slightest depreciation in the value of Bank of England paper as compared with gold ; and the Directors, or rather that portion of them who know anything of the principles of their busi-

ness, contend, as we are informed, that from whatever causes the drain may have arisen, it cannot be owing to their paper being in excess, for if it were, their notes would be at a discount; and that to contract their issues, would only be to cause embarrassment in the commercial world without stopping the drain for bullion.

It must be admitted that there is a good deal of plausibility in this statement; but it is notwithstanding essentially fallacious. The truth is, and the Directors of the Bank of England ought to have known it, that the fact of bullion continuing for any considerable period to be exported from a country whose currency consists partly of gold and partly of paper convertible into gold, is of itself a conclusive proof that its whole currency, gold as well as paper, is depreciated, or, which is the same thing, is redundant as compared with the currency of other countries. And as the drain must continue until the amount of our currency be reduced so as to raise its value to a level with that of our neighbours, it is obvious that unless the Directors narrow their issues, their coffers will be entirely exhausted.

If the currency of countries, having an intercourse together, consisted exclusively of the precious metals, it is evident they could not be accumulated to excess in any country which allows them to be freely sent abroad without occasioning their instant exportation. But suppose that the currency of any particular country, as England, instead of consisting exclusively of the precious metals, consists partly of them and partly of paper immediately convertible into them. In this case, if paper be issued in excess, that excess will not be indicated by a depreciation in the value of paper as compared with gold, but by a depreciation of the whole currency as compared with the currency of other states. In the circumstances under which we are now placed, an issue

of two hundred thousand Bank of England five pound notes has precisely the same effect on the value of money, as if an additional million of sovereigns were thrown upon the market. The notes are of the same value as gold; for gold may immediately be obtained in exchange for them, and they are as readily received in all payments throughout the country. It is quite clear, therefore, that the statement that gold and paper are equivalent in the market is no answer whatever to those who contend that our paper currency is redundant, and that this redundancy is the cause of the present drain of bullion. The effect for increased issues of notes immediately convertible into gold is not to cause any discrepancy between the value of paper and the value of gold in the home market, but to increase the amount of the currency, or to render it redundant as compared with that of other countries; and thus, inasmuch as notes do not circulate abroad, to cause the exportation of coin, and consequently, a drain upon the Bank.

It is quite clear, therefore, that unless the Directors of the Bank of England limit the issue of their notes, so as to raise the value of the whole currency of the country by lessening its quantity, the drain will continue until they are divested of every ounce of bullion in their coffers. It has been supposed that the value of our currency has been depressed, during the last three months, *three* per cent., as compared with that of France and most other countries; and as the expense of carrying gold to France cannot well exceed $\frac{1}{2}$ per cent., it is plain, if this supposition be well founded, that the exporters of gold will have realized a profit on the transaction of no less than $2\frac{1}{2}$ per cent. It is quite obvious, too, that so long as the Directors of the Bank continue to supply the place of the gold that has been drawn from them with fresh issues of paper, the quantity of the currency can neither be dimi-

nished nor its value augmented ; and so long, consequently, will the bullion merchants continue to demand gold from the bank, and to export it. But the Directors have it in their power to put a stop to their demands. To accomplish this, they have only to narrow their issues, to decline supplying the place of the gold demanded of them with fresh notes. If they do this, the quantity of the currency will be diminished ; and as the demand for its services, or the commodities to be circulated by its agency, must continue the same, or very nearly the same as before, its value will rise, and the drain will cease.

We have heard it contended by some of these apologists of the Bank of England, who admit that the demand for gold has been caused by an over issue of paper, that this over issue has taken place in consequence of the proceedings of the country bankers, and not of the Bank of England. We believe this statement to be true to a considerable extent ; but still we deny that it forms any apology for the proceedings of the Bank. The Directors ought to have foreseen and been prepared for an increased issue of country paper. It is, in fact, one of the most serious inconveniences attached to the use of such a species of paper currency as is supplied by the country bankers of England, that it is extremely apt to be, on the one hand, suddenly and unduly contracted in periods of revulsion, or when the price of any large class of commodities is on the decline ; and that, on the other, it is very apt to be as unduly enlarged in periods when confidence is high and prices generally on the advance. Our readers are all aware how vastly the misery and distress occasioned by the heavy fall of prices that took place subsequently to the close of the last war, were aggravated by the failure of so many of the English country banks. These failures had a double effect :—They not only spread irremediable ruin

among those unfortunate individuals who had deposited their money in their hands, but by lessening the quantity of money in the country, they added to its value, and thus rendered the fall of prices much more considerable than it would otherwise have been. Now, however, that the country has recovered from its former depressed state, the country bankers are again adding greatly to their issues. They have confidence in the stability of the farmers and manufacturers, and the latter have confidence in them. Not only are the old houses adding to the number of their notes in circulation, but new competitors are every now and then coming into the field, who, from a natural desire to get their paper into circulation, are necessarily less scrupulous in their investigations with respect to the circumstances of the applicants for loans, than the old and long established houses. We have heard gentlemen of great experience in the business of banking, state that they were fully satisfied that not less than from *thirty* to *forty* per cent. had been added to the number of country bank notes in circulation in Britain during the last three years.

This oscillation in the amount of the country currency should have been known to the Directors of the Bank of England. And it should have occurred to them, at the time they were endeavouring to force the issue of their notes, by lending upon mortgage and other devices, that the renewed confidence and prosperity of the country would necessarily occasion an increased issue of provincial paper, and that unless they *contracted* the issue of their notes, the whole currency of the kingdom would become depreciated from excess. The Directors of the Bank of England ought also to have been aware, that as our currency is now constituted, whenever its quantity becomes excessive, the drain for bullion thence arising, will operate, in the first instance, exclusively on their coffers, and not on those of the country

bankers. And hence it is plain that a regard to their own safety ought to have dictated to them the propriety of early restricting their issues, inasmuch as, by doing so, they would have kept the currency in London and its vicinity at a higher level, and would thus have opposed an insuperable obstacle to the excessive issue of country notes. By delaying the reduction of their issues the Directors, though no doubt unintentionally, have done very great injury to the country. They have now no choice—they must, whether agreeable to them or not, immediately set about making that reduction they should have made long ago. It must not, however, be supposed that the effect of that contraction of Bank of England currency that must speedily take place, will be confined to London; it will be felt throughout the empire. As soon as the value of Bank of England paper has been raised by the diminution of its quantity, the drain on the bank will cease, and gold will then begin to be demanded from the country banks. These establishments will in consequence be compelled to reduce their issues; and it is but too probable that this reduction will be productive not only of ruin to many of the individuals who have obtained loans from the banks, but even to some of the banks themselves. These are not mere speculative conclusions; and we have the satisfaction to know that they are approved by some of the most extensive and best informed merchants and bankers in the country.





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